



2011 Agricultural Outlook

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The following is an executive summary of the *2011 Agricultural Outlook* which, itself, focuses on beef, pork, and major grains, oilseeds and horticulture commodities in Canada based on farm cash receipts. For each commodity discussed in the outlook, a brief market outlook is provided along with important issues facing each sector. Below are the sector outlooks for 2011.

Industry outlook for 2011

Canada's total farm cash receipts in 2009 had a value of \$44.2 billion. Beef and hog farms, as well as greenhouse, nursery and floriculture operations have experienced a decrease in their average net cash farm income during the 2005-2008 period compared to 2001-2004. Canada is very reliant on foreign export markets but saw exports drop while imports increased from 2008 to 2009. Some commodities have experienced decreases in per capita consumption but total Canadian consumption for all the commodities discussed has increased from 2008 to 2009.

Beef cattle outlook for 2011

Soft demand with a global economic recession has narrowed profit margins and encouraged liquidation of the national herd. A further moderate reduction in the national inventory of beef cattle and calves appears likely in 2011. Increased demand for corn and other grains in international markets will increase breakeven levels at all stages of livestock production. The rising and volatile price of C\$ in terms of US\$ makes cattle price forecasting very problematic, even in the short term. At the moment in Alberta, price forecasts into mid-2011 range from C\$85-C\$93/cwt for slaughter ready cattle and C\$100-C\$112/cwt for feeder cattle. Expect prices for feeders to rise steadily over the first six months of 2011 with negative implications for feedlot profitability.

As has been the case for a couple of years, the impact on the quantity of beef supplied from decreased fed cattle production in Canada has been offset by high levels of cow and heifer slaughter. However, smaller numbers of cows and calves are leading to: (1) smaller numbers of domestically produced feeder cattle, which will exasperate over capacity issues for feedlots and for packers, (2) lower levels of domestic beef production, and, eventually, (3) relatively higher beef prices for consumers. In 2011, forecasters at the United States Department of Agriculture expect annual beef production in the United States to fall two percent. They also predict that per capita beef supplies next year in the United States will be at their lowest level since 1952. At some point soon, the reduction in the supply of beef is going to result in higher prices throughout the beef marketing channel in North America.

Pork outlook for 2011

Cautious optimism and profits returned to the Canadian pork industry during the spring and summer of 2010. However, since then margins have turned negative again and if this continues for an extended period there will be more breeding herd contraction. US pork production for 2011 is projected to be up one percent but this may change if inventory reduction picks up. Tighter pork supplies and a recovery of foreign export markets due to a low US dollar should boost US hog prices in 2011.

Current futures market prices for 2011 are projecting losses for the first quarter of 2011 but profits should return in the second and third quarters depending on what feed prices do. The estimated cost for Ontario as of November 2010 was approximately \$145-\$155 per 100 kilograms dressed. US farrow-to-finish operations are projected to breakeven financially in 2011 which will probably result in not much liquidation or expansion in the US.

Durum wheat outlook for 2011

With reduced global availability of food grade durum, prices in 2011 are expected to be bullish. It appears there will be a sufficient quantity of durum produced in Canada to satisfy foreign buyers, but those wanting the highest quality likely will face much higher prices. As at October 28, 2010, the Canadian Wheat Board Pool Return Outlook for durum with 13 percent protein for the 2010/11 crop year is \$7.40 per bushel. After deductions for freight and elevator charges, net prices to growers are just above \$6.00 per bushel.

Like other grains and oilseeds, durum prices continue to be influenced by bullishness in the United States corn market. As higher corn prices ration the quantity demanded of corn, profitable opportunities may arise for expected larger domestic supply of feed grade durum. The C\$/€ exchange rate also has a large impact in the durum price outlook. The price of C\$ in terms of euros has been falling which makes Canadian durum appear less expensive to European importers.

Barley outlook for 2011

Export restrictions in Russia and the Ukraine have essentially eliminated what has until recently been the cheapest sources of supply. This interventionism combined with reduced barley production in the Northern Hemisphere will likely sustain barley prices at higher levels throughout the entire crop year. In response to high prices, importers and domestic users of feed barley may switch to less costly feed grains. Tempering this bullish outlook for barley prices is the prospect of a 363 million bushel bumper crop in Australia. This new, large supply of Australian barley may marginally reduce world prices. Indeed, Chinese importers of malting barley may withhold large purchases from the Canadian Wheat Board until after Australian harvest is complete. As of the first quarter of the 2010/11 crop year, barley exports from Canada are down 40 percent compared to the previous year.

Oats outlook for 2011

With global oats production forecast to decline by 9 percent in 2010/11, price forecasts are bullish. In North America, oats prices tend to be quite correlated with corn prices and in general track close to each other. Oat trade, like production, has been steady relative to other grains for the past ten years. Buyers in the United States, Mexico and Japan on average account for 81 percent, four percent and three percent, respectively, of world oat imports. Growers in Canada, the European Union and Australia on average account for 83 percent, six percent and six percent, respectively, of world oat exports. This is not likely to change notably if oats become slightly more expensive compared to other grains.

Canola outlook for 2011

Canola has been a consistently profitable crop for both growers and processors. In fact, The Canola Council of Canada has set an ambitious annual production target of 674 million bushels by 2015. This objective is to be realized by a 35 percent increase in yields and 30 percent increase in acreage. The price outlook for 2011 is somewhat positive because of the effects of rising prices in competing oilseed markets and access to markets in the United States and China which were jeopardized by government intervention in 2010. However, the level of accessibility must be interpreted as being somewhat tenuous relative to 2008/09.

Flaxseed outlook for 2011

Flaxseed exports in 2010-11 seem poised to absorb reduced domestic production. Current cash prices in Saskatchewan for No. 1 flaxseed (\$13.82 per bushel) are now well above that for No. 1 canola (\$10.77 per bushel). Prices for 2011 are expected to be considerably higher than last year because of reduced supply in Canada in the face of strong demand among importers. Buyers without alternatives to flaxseed could face prices of \$15.25 per bushel or higher before the 2011 crop is harvested.

Corn outlook for 2011

World corn production for 2010/11 is forecast to be 818.52 million metric tons which is up one percent from last year and up three percent from 2008/09. Total world corn use is estimated at 837.31 million metric tonnes. This is a three percent increase from 2009/10 and will cause world corn ending stocks to drop 19 million metric tonnes or 13 percent. As a result of stronger US demand and lower world coarse grain supplies, the corn market is forecast to see higher prices in the 2010/11 crop year as compared to 2009/10. The USDA is forecasting a US average farm price of US\$4.80-\$5.60 per bushel. AAFC is estimating the Chatham, Ontario corn price to average from \$3.94-\$4.70 per bushel. University of Guelph, Ridgetown Campus projections using historical seasonality patterns, forecast the Chatham, Ontario corn price to average in the \$4.30-\$4.80 per bushel range.

Soybean outlook for 2011

World soybean production for 2010/11 is forecast to be 257.36 million metric tonnes which is down two percent from last year but up 21 percent from 2008/09. Total world soybean use is estimated at 254.67 million metric tonnes. This is a seven percent increase from 2009/10. World soybean ending stocks will be up slightly. Higher soybean prices are forecast in 2010/11 compared to 2009/10. The USDA is forecasting a US average farm price of US\$10.70-\$12.20 per bushel. AAFC is estimating the Chatham Ontario soybean price to average from \$9.53-\$10.61 per bushel. University of Guelph, Ridgetown Campus projections using historical seasonality patterns, estimate the Chatham Ontario soybean price to average in the \$10.00-\$11.30 per bushel range.

Potato outlook for 2011

The 2010 potato crop in the US is estimated to be down eight percent from 2009. 2010 production is estimated at 399 million cwt with 361 million cwt produced in the fall crop. Average yield per acre is pegged at 396 cwt, a decrease of four percent from 2009 yields. The world potato supply for 2010/11 is projected to be tight with production down in Canada, Europe and Russia, which experienced a 30 percent decrease from 2009 due to the severe summer drought.

US domestic per capita use in 2009 was 113.1 pounds, down four percent from 2008. Two-thirds of the 2009 US crop was used for processing, with half of these potatoes (138.4 million cwt) made into frozen french fries. Imports (Canada accounts for 87 percent of total import value) represent about 63 million cwt (farm weight) annually which is 14 percent of US utilization. The potato industry in Canada and the US has experienced lower potato prices in 2010 compared to 2009. Lower US and Canadian production and tight world supplies in 2010/11, should provide support for higher prices in 2011.

Greenhouse vegetables outlook for 2011

Canada has significant vegetable trade with the US and therefore Canadian prices are largely determined by US market prices. Canada's market share of US import volumes of all fresh market tomatoes is approximately 11 percent while Mexico's market share is 88 percent. All US fresh market tomato imports are up 36 percent from January to August 2010 compared to one year ago while imports of greenhouse tomatoes are up 19 percent. US fresh tomato prices in 2010 have been mostly higher than 2009. Both fresh and processed tomato prices in the US in 2011 are expected to be below the previous three year average. US processing tomato production in 2010 is estimated to be down seven percent from 2009 but will be the second or third highest on record. Fresh market supplies this fall are expected to increase and drop grower prices below last year's prices.

US fresh market bell pepper prices in 2010 have mostly been higher than a year ago with prices in September 2010 that were 11 percent higher than in September 2009. Prices for 2011 are forecast to be lower than 2010 prices as per capita consumption is forecast to drop slightly along with an 11 percent increase in 2010 fall bell pepper harvested acreage. US imports of fresh market peppers from January to August 2010 are up 33 percent compared to the same period in 2009. Canadian imports of bell peppers from the Netherlands will now be subject to a duty for the next five years. In October, 2010, the Canadian International Trade Tribunal (CITT) announced its' final determination on injurious dumping by the Netherlands of bell peppers into the Canadian market.

US fresh market cucumber prices in 2010 have mostly been higher than a year ago with prices nine percent higher in September 2010 than in September 2009. Prices in 2011 are expected to be higher than 2010 prices. Prices are expected to be up 26 percent in the fourth quarter of 2010 compared to the same period in 2009 while 2011 first quarter prices are projected to be up 28 percent over those of the fourth quarter of 2010. US imports of fresh market cucumbers from January to August 2010 are up 11 percent compared to the same period in 2009.

Fruit outlook for 2011

Prices in the US fruit market have an impact on Canadian prices as Canada is the largest customer of US fresh fruit export volumes.

The 2010 apple crop in the US is estimated to be 9.5 billion pounds which is down four percent from last year. Poor weather conditions affected the crop in the eastern and central US. The 2010/11 marketing season (August to July) is expected to have higher prices than a year ago due to increased demand, decreased production and lower carry in stocks. Higher US apple prices should provide some support to Canadian apple prices.

The 2010 US grape crop is estimated at 14.2 billion pounds which is three percent smaller than last year. This is the second year in a row for lower production and lower supplies should provide support for higher grape prices going forward. California's grape crop is 12.7 billion pounds which is down three percent from last year with 55 percent of the crop going to wine grapes, 31 percent going to raisin grapes and 14 percent for table grapes. The volume of grapes crushed for wine is also expected to be down in 2010/11 due to the six percent smaller California wine grape crop. This will increase prices for producers selling grapes to wineries. The US has had two years of back-to-back record high producer prices for wine grapes.

The estimate for the 2010 US blueberry crop is 488 million pounds, up eight percent from the 2009 crop. US blueberry prices have seen lower prices since 2007 due to a buildup of supply.

Total North American (US and Canadian) blueberry production has been increasing for several years. In 2009, Canada was the largest source for both wild and cultivated frozen US blueberry imports. US demand for Canadian imports should continue but US prices will experience downward pressure from increasing production and imports from other countries such as Argentina and Chile.

Summary

This document provides an overview of the major shocks that have impacted the commodities of beef, pork, major grains and oilseeds, and horticulture for the 2010 year. The manuscript also provides an outlook for 2011 and discusses in general terms the major issues likely to face each agricultural sector or commodity. From the review, it would appear the Canadian agricultural sector is performing as would be expected given that most commodities are traded globally and need to be cost competitive. While total farm cash receipts have continued to increase the last couple of years, net income has been prone to significant variability between years. Some sectors (e.g. pork and beef) are struggling for long run sustainability due to an extended period of poor profitability. Within Canada total food consumption has increased because of a growing population base but the commodities of fluid milk, beef, pork, poultry, eggs, and total fruits have all experienced a per capita decline.

When the issues facing each commodity are examined there are many common challenges facing each production type. These common issues can be listed as follows:

- Dependency on foreign markets which causes the potential for vulnerability to changes in government policy, exchange rates and trade protectionism.
- Rising farm input costs that drive up the cost of production making it difficult to remain cost competitive despite productivity increases due to improved technology.
- Increased competition from imported products from potentially lower cost countries due to less rigorous food safety, labour, and environmental regulations.
- Shifting consumer consumption patterns due to increased concern about buying local, healthier eating, and changing population demographics.
- Increased importance of domestic government programs despite shifting spending priorities.
- While interest rates are expected to remain low for the 2011 time period, low sector profit margins make the commodity groups vulnerable to possible rate increases caused by global inflation.

In conclusion, agriculture in Canada remains important with farm gate sales exceeding \$44 billion in 2009 but most commodities experience low profitability and export dependency. The majority of commodity prices are set by the United States which typically represents Canada's most significant agri-food trading partner.

1.0 Introduction

This document will focus on beef, pork, and major grains, oilseeds and horticulture commodities in Canada based on farm cash receipts. For each commodity discussed, a brief market outlook is provided along with important issues facing each sector. The first section is a general overview of Canadian agriculture.

1.1 Canadian Farm Cash Receipts

Table 1.1 displays total farm cash receipts by province for 2007-2009. Total receipts (including government payments) increased from \$40.7 billion in 2007 to \$44.2 billion in 2009. The three largest provinces in terms of 2009 farm cash receipts were Ontario, Alberta and Saskatchewan.

Table 1.1: Total Farm Cash Receipts by Province, 2007-2009 (\$ millions)

| Province | 2007 | 2008 | 2009 |
|----------------------|----------|----------|----------|
| Newfoundland | 106.5 | 109.9 | 109.6 |
| Prince Edward Island | 382.6 | 392.3 | 395.7 |
| Nova Scotia | 456.8 | 477.5 | 441.6 |
| New Brunswick | 450.4 | 472.1 | 482.6 |
| Quebec | 6,877.5 | 7,502.9 | 7,371.6 |
| Ontario | 9,324.1 | 10,099.7 | 9,650.7 |
| Manitoba | 4,338.9 | 4,789.2 | 4,763.4 |
| Saskatchewan | 7,752.9 | 9,392.4 | 9,197.3 |
| Alberta | 8,664.1 | 10,157.5 | 9,339.1 |
| British Columbia | 2,391.6 | 2,494.5 | 2,421.6 |
| Canada | 40,745.5 | 45,888.0 | 44,173.1 |

Source: Statistics Canada catalogue 21-011

Note: Includes market receipts and program payments. Figures have been rounded.

Table 1.2 shows the breakdown by category for the 2007-2009 Canadian total farm cash receipts. In 2009, crop commodities accounted for 52.0 percent of all receipts while livestock and products represented 40.5 percent. The three largest individual crops in terms of farm cash receipts were all wheat (\$5.1 billion), canola (\$5.0 billion) and soybeans (\$1.3 billion). The three largest livestock categories were cattle & calves (\$5.8 billion), dairy products (\$5.5 billion) and hogs (\$2.9 billion).

Table 1.2: Total Farm Cash Receipts By Category, 2007-2009 (\$ millions)

| Category | 2007 | 2008 | 2009 |
|----------------------------|----------|----------|----------|
| Total crops | 18,414.2 | 22,953.6 | 22,970.7 |
| Total livestock & products | 18,238.4 | 18,802.1 | 17,902.5 |
| Total program payments | 4,092.9 | 4,132.2 | 3,299.9 |
| Total receipts | 40,745.5 | 45,888.0 | 44,173.1 |

Source: Statistics Canada catalogue 21-011

Note: Includes market receipts and program payments. Figures have been rounded.

1.2 Financial Condition of Canadian Farms

Table 1.3 shows total net farm income for Canada for 2007-2009. Total net income in 2009 was \$2.7 billion, down substantially from 2008 but higher than 2007 levels. Total net income was 6 percent of total cash receipts compared to 15 percent in 2008 and 2 percent in 2007.

Table 1.3: Net Farm Income, 2007-2009 (\$ millions)

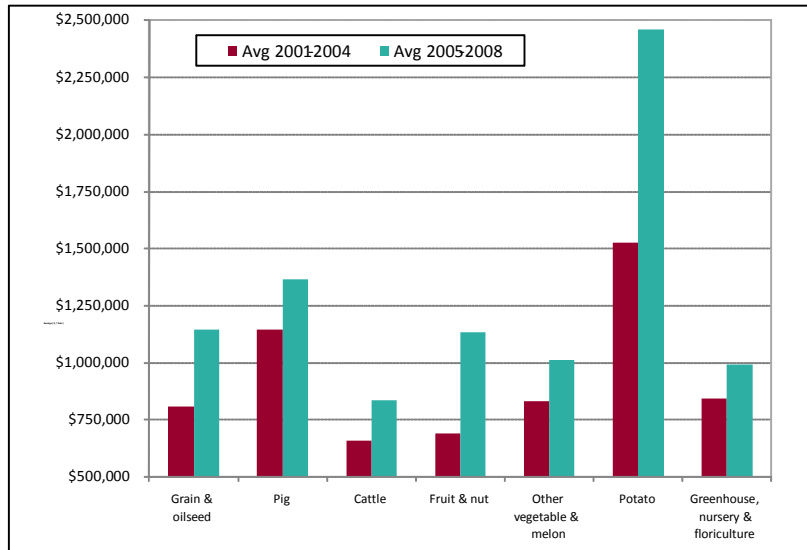
| Canada | 2007 | 2008 | 2009 |
|------------------------------------|----------|----------|----------|
| Total cash receipts | 40,745.5 | 45,888.0 | 44,173.1 |
| - Operating expenses after rebates | 33,787.1 | 37,133.6 | 35,161.1 |
| = Net cash income | 6,958.4 | 8,754.4 | 9,011.9 |
| + Income in kind | 40.7 | 40.9 | 37.6 |
| - Depreciation charges | 5,011.7 | 5,191.4 | 5,455.1 |
| = Realized net income | 1,987.3 | 3,603.9 | 3,594.4 |
| + Value of inventory change | -1,011.1 | 3,138.1 | -918.3 |
| = Total net income | 976.2 | 6,742.0 | 2,676.1 |

Source: Statistics Canada catalogue 21-010

Note: Total net income = total cash receipts - operating expenses after rebates + income in kind - depreciation charges + value of inventory change. Figures have been rounded.

Figures 1.1 and 1.2 below are calculated using data from Statistics Canada's Farm Financial Survey. The most recent data available is from 2008. The data in Figures 1.1 and 1.2 are the average per farm (\$) by farm type for the 2001-2004 and 2005-2008 periods. Average net worth per farm in Figure 1.1 showed an increase for all farm types in the 2005-2008 period compared to the 2001-2004 period. Potato and pig farms had the highest figures at \$2.5 million and \$1.4 million respectively in 2005-2008. Cattle operations had the lowest average net worth at \$836,000 per farm.

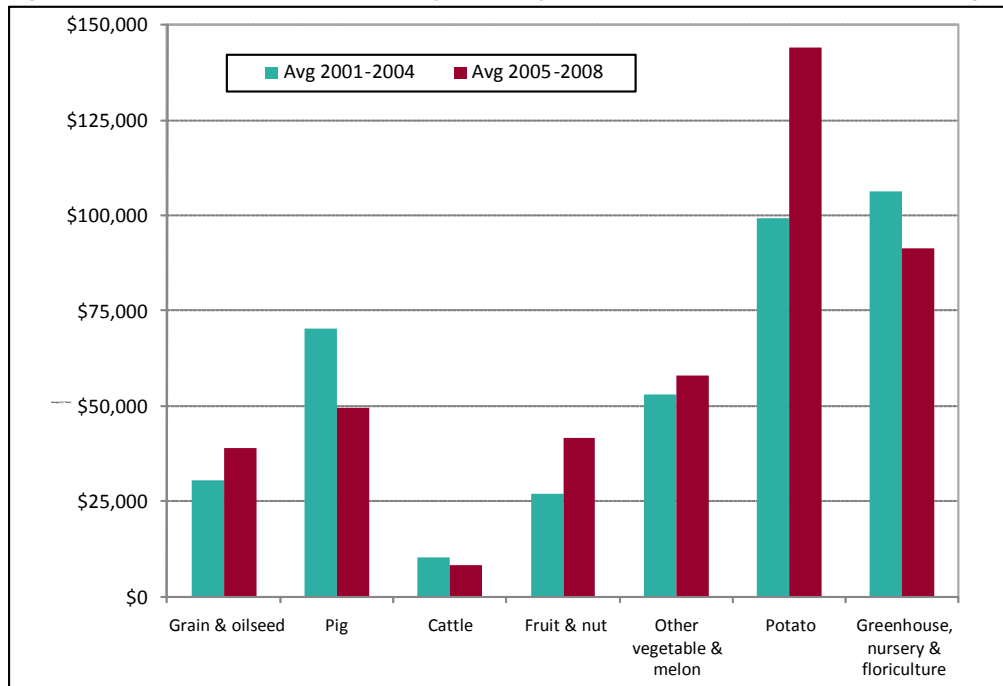
Figure 1.1: Net Worth by Farm Type, 2001-2004 vs. 2005-2008 Average (\$/farm)



Source: Statistics Canada catalogue 21F0008X

Figure 1.2 shows average net cash farm income for the 2001-2004 and 2005-2008 periods. Changes in net cash farm income showed increases for grain & oilseed, fruit & nut, other vegetable & melon, and potato farms. Decreases were experienced by pig, cattle, and greenhouse, nursery & floriculture farms. The farm types with the highest average per farm in 2005-2008 were potato and greenhouse, nursery & floriculture at \$144,000 and \$91,000 per farm respectively. Cattle operations had the lowest average net cash farm income at \$8,000 per farm.

Figure 1.2: Net Cash Farm Income by Farm Type, 2001-2004 vs. 2005-2008 Average (\$/farm)



Source: Statistics Canada catalogue 21F0008X

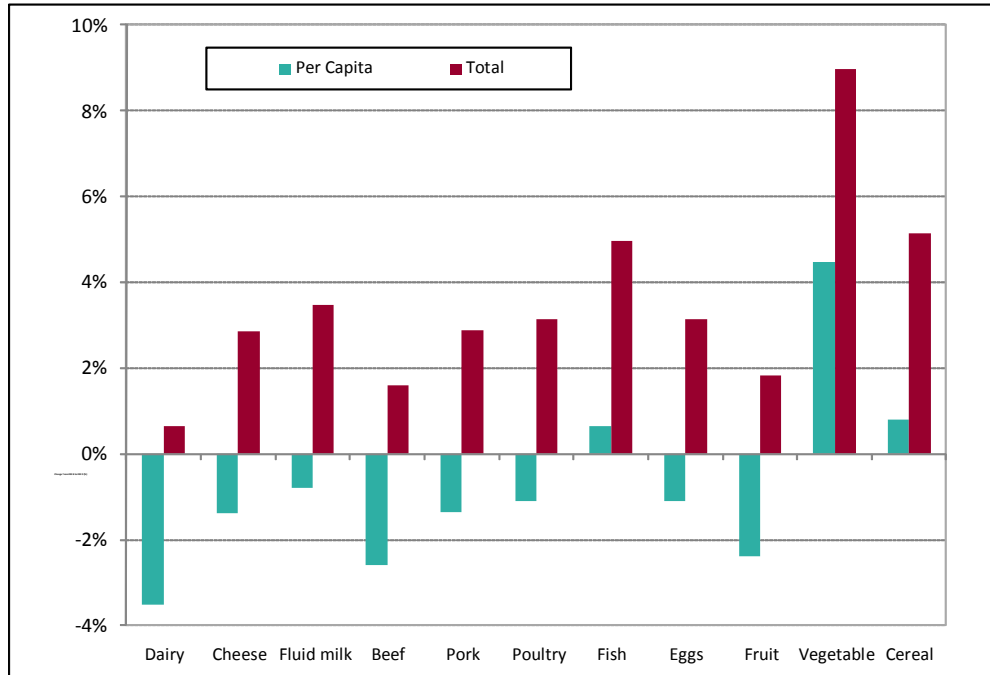
1.3 International Exports and Imports

Trade is highly dependent upon the value of the Canadian dollar relative to other currencies. In 2008, the Canadian dollar was equal to \$0.9381 US dollars. The Canadian dollar dropped to \$0.8757 in 2009 relative to the US dollar and has averaged \$0.9673 for 2010 year-to-date (January to October). From 2008 to 2009, total Canadian agri-food exports to all countries have dropped from \$38.9 billion to \$35.2 billion, a 10 percent decrease. Conversely, total Canadian agri-food imports from all countries rose from \$27.5 billion in 2008 to \$28.0 billion in 2009, a 2 percent increase. Canada's net trade balance (exports less imports) changed from \$11.4 billion to \$7.2 billion as a result. In 2009, the US accounted for 50 percent of the value (C\$) of total Canadian agri-food exports, down from 51 percent in 2008. Further, the US also accounted for 61 percent of the value (C\$) of total Canadian agri-food imports, which is similar to 2008. The trade balance with the US dropped from \$3.2 billion in 2008 to \$497 million in 2009.

1.4 Per Capita Consumption

Figure 1.3 shows the change in per capita and total Canadian consumption from 2008 to 2009 by major food group. The important food groups to note for the purposes of this document are red meats (which include beef and pork), cereal products (grains), total fruits and total vegetables (horticulture).

Figure 1.3: Changes in Canadian Per Capita and Total Consumption, 2008 vs. 2009 (percent)



Source: Statistics Canada catalogue 21020X; CANSIM tables 20019, 510001; University of Guelph, Ridgetown Campus calculations.

Per capita consumption (i.e. quantity consumed per person) in Canada has risen for fish (+0.6 percent), total vegetables (+4.5 percent) and cereal products (+0.8 percent). Per capita consumption has decreased for dairy products (-3.5 percent), cheese (-1.4 percent), fluid milk (-0.8 percent), beef (-2.6 percent), pork (-1.4 percent), poultry (-1.1 %), eggs (-1.1 percent), and total fruits (-2.4 percent).

From 2008 to 2009, the population in Canada increased from 33.3 million to 33.7 million, a 1.2 percent increase. Using the per capita figures and multiplying by the total Canadian population, a total Canadian consumption value can be estimated for each food group. Using this method, total consumption figures have increased for all food groups. What this means is that although there might be concern that per capita figures have decreased for some products, the increase in population has resulted in larger aggregate consumption figures.

1.5 Summary

Canada's total farm cash receipts in 2009 had a value of \$44.2 billion. Beef and hog farms, as well as greenhouse, nursery and floriculture operations have experienced a decrease in their average net cash farm income during the 2005-2008 period compared to 2001-2004. Canada is very reliant on foreign export markets but saw exports drop while imports increased from 2008 to 2009. Some commodities have experienced decreases in per capita consumption but total Canadian consumption for all the commodities discussed has increased from 2008 to 2009.

2.0 Beef Cattle

In 2009, producers of beef cattle in Canada generated more than \$5.8 billion in farm cash receipts (excluding program payments), which represented 13.2 percent of all farm cash receipts nationally. More gross revenue is generated through the sale of beef cattle in Canada than any other livestock group or any individual grain or oilseed.

Despite prices rebounding from five-year historical lows during the first quarter of 2010, total receipts declined 11.8 percent from the first quarter of 2009 to \$1.39 billion. Inventory levels are continuing their decline from their peak in 2005 as a result of a number of factors including, but not limited to, large supplies of competing protein (pork and chicken), an appreciating Canadian dollar relative to the US dollar, mandatory country of origin labeling policy in the United States, and high feed grain costs. The confluence of these economic circumstances have negatively impacted the profitability of primary production and have provided a clear signal to producers to reduce output and in some cases, exit the industry.

Table 2.1 shows that as of July 1, 2010, there were 14 million head of cattle in Canada, down almost five percent from the previous year, continuing a steady decrease that started in 2005. While the inventory drop off over the year to July 1 occurred across all categories and all regions, the largest declines were in Alberta, Saskatchewan and Manitoba. As the number of cattle in Canada has fallen to its lowest level since 1994, so has the number of farms reporting beef or dairy cattle. As of July 1, 2010, the number of farms with beef or dairy cattle totaled 99,026, a decrease of 3.5 percent from 2009.

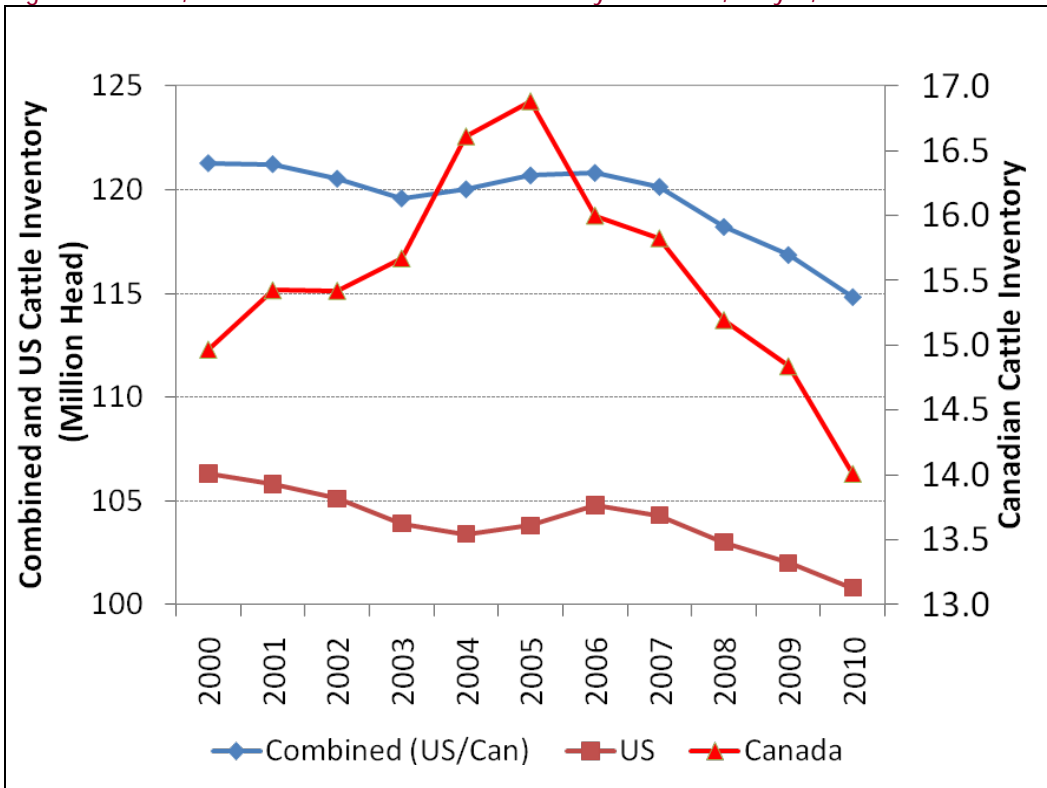
Table 2.1: Canadian Cattle Inventory, as at July 1, in 000 head.

| | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
|---------------|-----------------------|---------------|---------------|---------------------|--------------|--------------|--------------|--------------|--------------|
| | All Cattle and Calves | | | Beef Cows & Heifers | | | Slaughter | | |
| Atlantic | 279 | 253 | 243 | 68 | 60 | 57 | 40 | 36 | 32 |
| Quebec | 1,375 | 1,380 | 1,362 | 252 | 257 | 238 | 145 | 154 | 152 |
| Ontario | 1,881 | 1,827 | 1,794 | 410 | 391 | 383 | 451 | 462 | 443 |
| Manitoba | 1,515 | 1,430 | 1,350 | 679 | 623 | 610 | 165 | 186 | 164 |
| Saskatchewan | 3,385 | 3,310 | 3,100 | 1,605 | 1,597 | 1,507 | 317 | 340 | 303 |
| Alberta | 6,010 | 5,830 | 5,506 | 2,222 | 2,040 | 1,953 | 1,555 | 1,630 | 1,474 |
| B.C. | 750 | 705 | 656 | 281 | 259 | 232 | 79 | 79 | 78 |
| CANADA | 15,195 | 14,735 | 14,011 | 5,517 | 5,227 | 4,979 | 2,752 | 2,886 | 2,646 |

Source: Canfax, 2010.

Given the relatively small size and interconnectedness with markets in the United States, the level and volatility of the currency exchange rate affects the profitability of both livestock feeding and cow-calf enterprises in Canada. From feeder cattle through to beef cuts, as well as feed grains, prices in Canada are influenced by economic circumstances in the United States due to the ability to arbitrage across the North American market. In recent years, tighter profit margins for producers on both sides of the border have led to a reduction in cattle inventories in both countries. Figure 2.1 reveals that all cattle and calves in the United States and Canada combined totaled 114.8 million head on July 1, 2010, down two percent from a year ago. The cattle herd in the United States is currently at its lowest level since 1973.

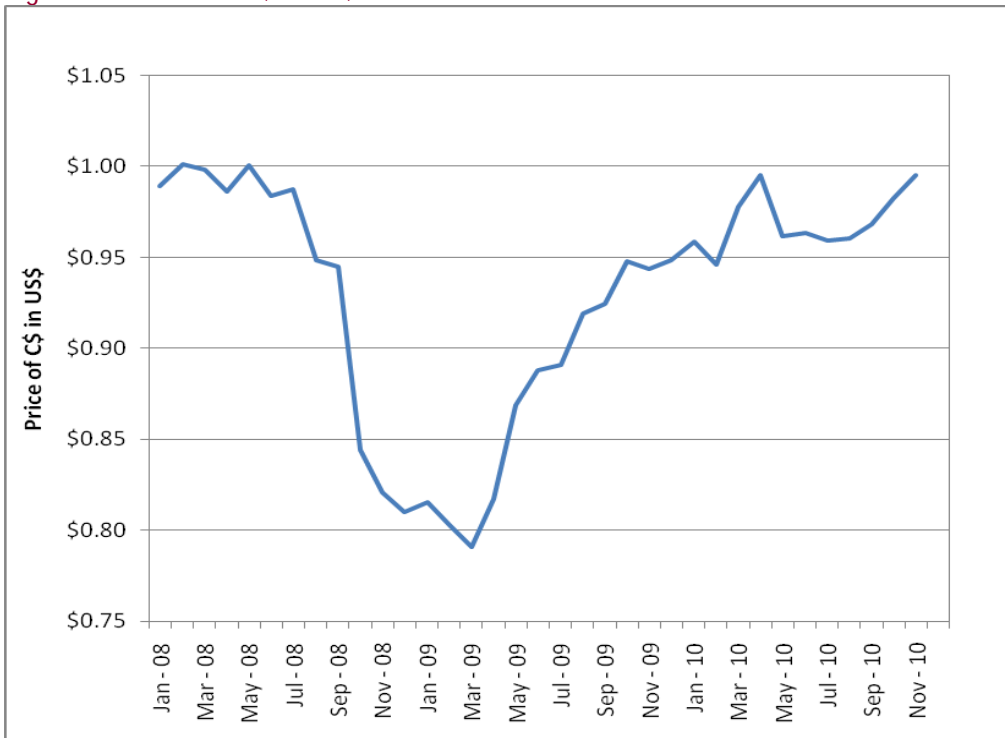
Figure 2.1: US, Canadian and Combined Inventory of Cattle, July 1, 2000-2010



Source: United States Department of Agriculture (USDA); Statistics Canada

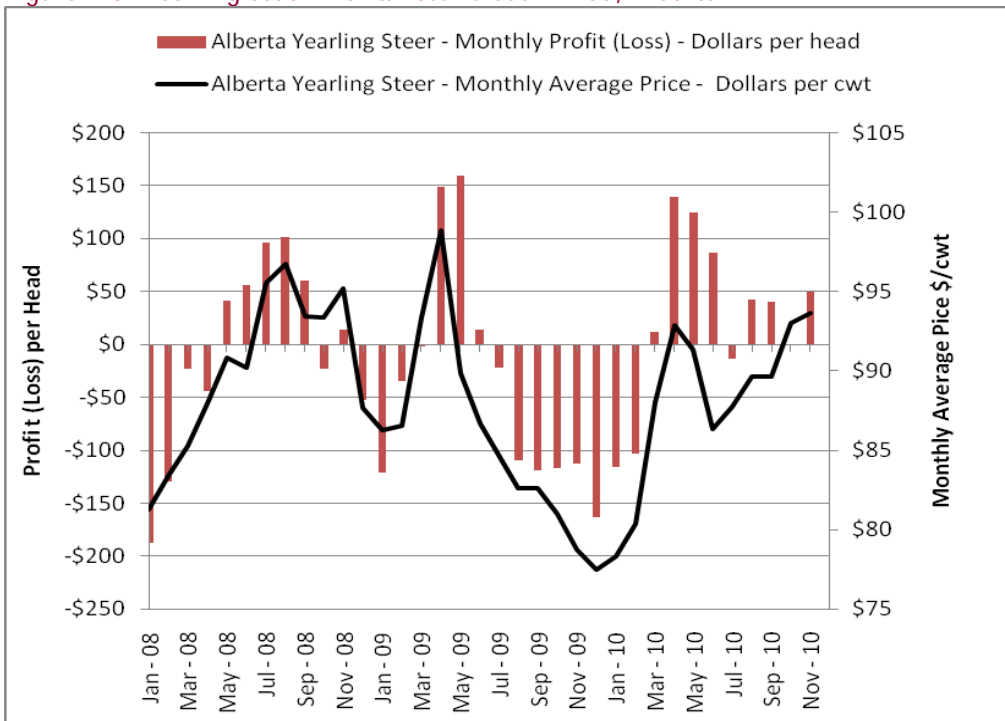
Arbitrage opportunities across the 49th parallel underscore the critical role played by the exchange rate in cattle, beef and feed grain pricing in Canada. There is a direct, highly correlated inverse relationship between the exchange rate, cattle and beef prices. A one cent appreciation of the C\$ relative to the US\$ reduces the price of live cattle in Canada by roughly one cent. In addition to a fluctuating and slowly appreciating currency over most of 2010 (Figure 2.2), lower prices of competing meats, poor packer margins and the effects of country of origin labeling requirements in the United States have reduced the prices received by producers and the profitability of feeding livestock in Canada (Figure 2.3).

Figure 2.2: Price of C\$ in US\$



Source: Statistics Canada. CANSIM vector V37426. C\$/US\$ noon spot average.

Figure 2.3: Yearling Steer Profit/Loss vs Cash Price, Alberta



Source: Canfax, 2010.

Since the dramatic return to profitability early in 2010, there has been a gradual deterioration of feedlot margins throughout the balance of 2010. This decline has been part of a longer trend. At present it appears that cattle feeding activities may contract further in the near term with negative implications for local feed grain demand, the financial viability of packers and the returns to feeder cattle producers.

In Canada, national beef cow and heifer numbers (4.97 million head) are at their lowest levels since 1993. Cow marketings were strong during the first half of 2010, up two percent over 2009. While the numbers of cows slaughtered was down five percent, sales to buyers in the United States were up 24 percent. Meantime, the number of beef heifers retained for breeding has fallen by 14,800 head from 638,400 to 623,600. The combination of increased cow marketings and decreased heifer retention implies the national inventory of beef cattle and calves is neither going to stabilize nor expand in the near term.

A significantly smaller number of feeder cattle have been placed in feedlots in Western Canada this fall. Cattle on feed in large (i.e. +1,000 head one time capacity) Alberta-Saskatchewan feedlots totaled 684,275 head as of October 1, 2010, down six percent from October 2009 and 13 percent from October 2008. Prices for feeder cattle are rising as the supply of feeder cattle in Canada has fallen faster than the demand among domestic and foreign buyers. Feedlot owner-operators are experiencing falling margins because in addition to higher feeder cattle prices, the prices for feed, other inputs, and the price of C\$ in terms of US\$ are each rising more quickly than prices for fed cattle. In the meantime, the pork backlog continues to build as hog inventories in North America are being liquidated.

Cattle exports to the United States are comprised primarily of fed cattle, as steer and heifer exports for immediate slaughter, and they have averaged 63 percent of Canadian cattle exports over the last five years. Through June, fed cattle exports are 23 percent higher year-over-year. A higher C\$/US\$ exchange rate has been the primary driver behind the increase in Canadian slaughter cattle exports. Meantime, year to date feeder cattle exports to the United States are 28 percent lower than in 2009 and 65 percent lower than in 2008.

2.1 Outlook for 2011

Soft demand with a global economic recession has narrowed profit margins and encouraged liquidation of the national herd. A further moderate reduction in the national inventory of beef cattle and calves appears likely in 2011. Increased demand for corn and other grains in international markets will increase breakeven levels at all stages of livestock production. The rising and volatile price of C\$ in terms of US\$ makes cattle price forecasting very problematic, even in the short term. At the moment in Alberta, price forecasts into mid-2011 range from C\$85-C\$93/cwt for slaughter ready cattle and C\$100-C\$112/cwt for feeder cattle. Expect prices for feeders to rise steadily over the first six months of 2011 with negative implications for feedlot profitability.

As has been the case for a couple of years, the impact on the quantity of beef supplied from decreased fed cattle production in Canada has been offset by high levels of cow and heifer slaughter. However, smaller numbers of cows and calves are leading to: (1) smaller numbers of domestically produced feeder cattle, which will exasperate over capacity issues for feedlots and for packers, (2) lower levels of domestic beef production, and, eventually, (3) relatively higher beef prices for consumers. In 2011, forecasters at the United States Department of Agriculture expect annual beef production in the United States to fall two percent. They also predict that per capita beef supplies next year in the United States will be at their lowest level since 1952. At some point soon, the reduction in the supply of beef is going to result in higher prices throughout the beef marketing channel in North America.

3.0 Pork

3.1 Background

The Canadian pork sector had farm cash receipts of \$2.89 billion in 2009 which was down from \$3.17 billion in 2008. This accounted for seven percent of total Canadian agricultural farm cash receipts (excluding program payments). Hogs were the third largest livestock industry behind cattle and calves, and dairy. The three largest provinces in terms of farm cash receipts from hogs were Quebec, Manitoba and Ontario which accounted for 81 percent of Canada's total.

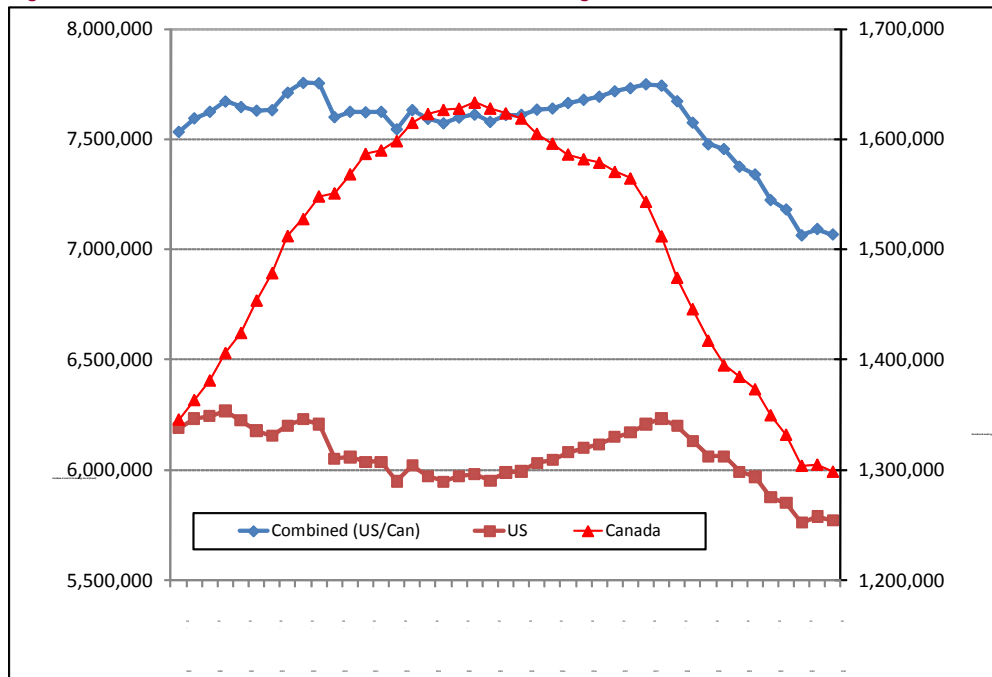
The 2010 year has seen higher hog prices and lower feed costs than 2009. The spring of 2010 brought much welcomed profits to the pork industry in Canada. These profits were badly needed as the industry experienced devastating financial losses from the fall of 2006 to the spring of 2010, a span of 42 months. Producer equity positions were severely eroded during this time and 4,255 producers (38 percent) exited the industry in the last four years.

Important news for producers is the November 2010 announcement that the Maple Leaf Foods plant in Burlington, Ontario has been sold to Sun Capital Partners who will continue to operate it under the name Fearmans Pork. There had been much uncertainty around the future of the plant since 2006 when Maple Leaf announced their intention to sell or close the plant. With the plant remaining open, this is very good news for Canadian producers.

3.2 Inventories

Breeding herd reduction in Canada and the US continued in 2010 but at a reduced pace compared to 2009. As of October 1, 2010, the combined US and Canadian breeding herds are two percent lower than a year ago. Figure 3.1 shows the breeding herds for the US, Canada and the combined US/Canadian herds for the period 2000-2010.

Figure 3.1: US, Canadian and Combined Breeding Herds, 2000-2010



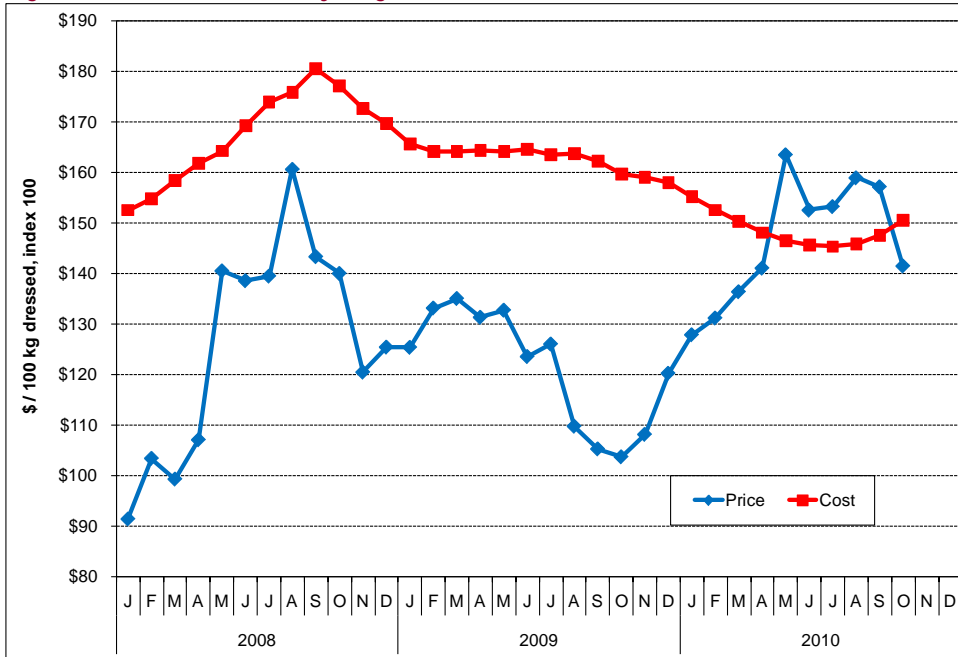
Source: USDA, Statistics Canada.

The Canadian breeding herd has decreased by 20 percent or 330,000 head over the last five years and is at its' lowest level since 1999. The US breeding herd has experienced a decrease of seven percent or 463,000 head since the end of 2007. Combined, Canada and the US have decreased nine percent or 676,800 head since the end of 2007.

The impact of the North American reduction so far has supported hog prices but this has been offset partially by productivity gains and heavier hog weights. Country of origin labeling (COOL) requirements by the US and the strong Canadian dollar continue to impact live pig exports to the US from Canada. Total exports are down 11 percent for 2010 year-to-date (Jan-Oct) compared to last year. Hog slaughter in Canada is down three percent for 2010 year-to-date. Total Canadian pig production (domestic slaughter plus live exports to US) is down five percent. US production has seen a four percent decrease in total federally inspected slaughter in 2010. The forecast for 2011 is projecting US pork production to be up one percent vs. 2010.

Figure 3.2 shows the monthly Ontario average weighted hog price for 2008-2010. Prices have fluctuated significantly over this period. The reduction in the North American breeding herd inventory the past couple of years and the subsequent decrease in pork production finally allowed prices to rise in 2010. This, in combination with a decrease in feed costs, allowed producers to realize some profits. The estimated cost of production for 2008-2010 is also shown in Figure 3.2. The industry has experienced significantly higher production costs due mainly to higher feed costs. This is directly a result of North American ethanol policy and its' impact on corn and other feed grain prices. The lower feed prices in 2010 did provide some temporary relief to producers.

Figure 3.2: Ontario Monthly Hog Price and Estimated Cost of Production, 2008-2010



Source: OMAFRA, Ontario Pork.

3.3 Prices

Most hog sales in Canada use some type of price formula based on US prices which are then converted to a Canadian equivalent by adjusting for exchange rate, dressing percentage differences, metric conversion and local basis. Hog price forecasts in US\$ per 100 pounds lean

for the US for 2011 are indicated in Table 3.1 along with the Ontario price equivalent in C\$ per 100 kilograms dressed and the Ontario forward contract prices which are based on the US futures market prices.

Table 3.1: Forecast Hog Prices, 2010-2011

| Period | US (US\$/100 lb lean) | Ontario Equivalent (C\$/100 kg dressed) | Ontario Forward Contract Prices (C\$/100 kg dressed)* |
|-------------|--------------------------|--|---|
| 2010Q4 | 74-78 | 135-142 | 125-140 |
| 2011Q1 | 76-80 | 139-146 | 125-138 |
| 2011Q2 | 81-85 | 148-155 | 138-160 |
| 2011Q3 | 76-80 | 139-146 | 152-161** |
| 2011Q4 | 67-71 | 122-130 | 128-142** |
| 2011 (Year) | 75-78 | 137-142 | 140-145 |

Source: September Quarterly Hogs & Pigs Report Analysis by Glen Grimes and Ron Plain, University of Missouri, September 27, 2010; Ontario Pork; University of Guelph-Ridgetown Campus calculations.

Note: Assumed exchange rate of C\$ 0.98 = US\$ 1. Figures have been rounded.

**Ontario forward contract prices on November 12, 2010 (after estimated basis adjustments). 2010Q4 based on average closing price +/- one standard deviation. **Based on CME Group Lean Hog and Exchange Rate futures closing prices on November 12, 2010 (after estimated basis adjustments).*

3.4 Outlook for 2011

Cautious optimism and profits returned to the Canadian pork industry during the spring and summer of 2010. However, since then margins have turned negative again and if this continues for an extended period there will be more breeding herd contraction. US pork production for 2011 is projected to be up one percent but this may change if inventory reduction picks up. Tighter pork supplies and a recovery of foreign export markets due to a low US dollar should boost US hog prices in 2011.

Current futures market prices for 2011 are projecting losses for the first quarter of 2011 but profits should return in the second and third quarters depending on what feed prices do. The estimated cost for Ontario as of November 2010 was approximately \$145-\$155 per 100 kilograms dressed. US farrow-to-finish operations are projected to breakeven financially in 2011 which will probably result in not much liquidation or expansion in the US.

4.0 Grains & Oilseeds - Western Canada

Grains grown in Canada include wheat, barley, corn, and oats, while canola and soybeans account for most of the oilseed acreage. With the exception of corn and soybeans, grain and oilseed production is geographically concentrated in the Prairie region but producers are found in every province of the country. Output from the more than 61,000 grain and oilseed farms in Canada is marketed globally.

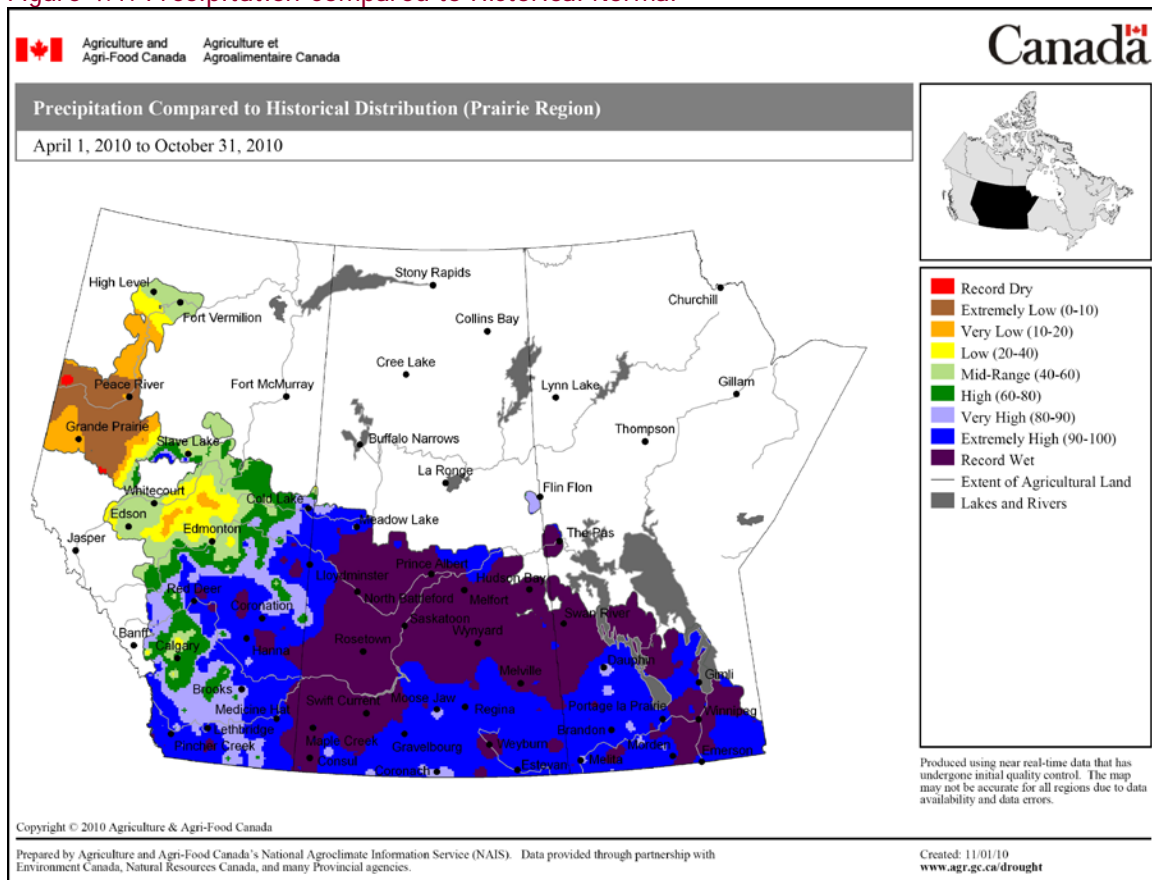
The demand for grains and oilseeds are derived from the demand for food (flour, starch and edible oils), feed (livestock) and innumerable industrial uses (such as fibre and energy). Grains and oilseed prices affect how these commodities are used and to what extent, while being affected by broader economic conditions and government policy.

As is the case with cattle and hogs, important influences on future earnings of growers in Canada include demand and supply conditions, inventory levels, the price of Canadian dollars in terms of other currencies, and government intervention in the market place. This section focuses on crops where the majority of the production occurs in Western Canada (wheat, barley, oats, canola and flaxseed) while corn and soybeans will be the object of a subsequent section. The figures below relate to the crop year in Western Canada which is from August to July.

Before proceeding, it is important to highlight the exceptionally difficult planting and harvesting conditions endured by growers in Western Canada in 2010. Figure 4.1 shows the entire part of the prairie region from west-central Alberta to eastern Manitoba had consistently above-average rainfall, with some especially wet locations reporting rain as often as three out of every five days. Temperatures were also cooler than normal, with growing degree days about 15 to 20 percent lower than average. These record-wet conditions followed two consecutive years of moderate to severe drought, particularly in Alberta. Climatic conditions led not only to the lowest seeded acreage in decades, but it also delayed harvesting activities and impacted quality and yield to varying degrees.

Remarkably, things could have turned out much worse for growers in Western Canada. By the fourth week of September when normally two-thirds of the prairie harvest would be done, progress was less than 20 percent complete. In Alberta and Saskatchewan, frost and snow further damaged crops that had lodged, bleached, sprouted or had been flooded. During the last seven days of September, fortunately, temperatures which had been persistently well below normal suddenly rose into the mid 20s, enabling Prairie wide harvesting activities to proceed for the first time. In some areas wet fields posed problems, but the relatively high temperatures and windy conditions made for good drying given the time of year.

Figure 4.1: Precipitation Compared to Historical Normal



Source: Agriculture and Agri-Food Canada.

4.1 Durum Wheat

Durum wheat is the only *tetraploid* species of wheat of commercial importance and it is used primarily in the production of pasta and couscous. Durum grown by western Canadian farmers is marketed on their behalf by agents at the Canadian Wheat Board to customers in more than 40 countries. The majority of the durum grown domestically is sold in export markets, the most important of which are in South Western Europe (Italy, Portugal), North Africa (Algeria, Morocco, Tunisia), South America (Venezuela, Chile, Peru) and the United States. Domestic millers and pasta producers are usually among the top five buyers (8 - 10 million bushels annually).

Relative to other coarse grains, the global durum market is small. While 10 - 15 percent of world durum supply originates in Canada, exports from Canada account for roughly half of global trade. Eighty percent of the market for the durum produced in Canada lies beyond North America, so supply and demand conditions in these areas have important consequences for growers in Canada.

Table 4.1 shows the most recent estimates of global durum production for 2010/11 in comparison to the 2009/10 and 2008/09 crop years. Forecasters at the International Grain Council and the Canadian Wheat Board are predicting that world durum production will fall by almost 100 million bushels to 1,275 million bushels, a level below the ten year average and the lowest output since 2002/03. Smaller output in face of steady demand will have an upward

influence on world prices. In response to relatively higher prices, it is expected that durum stocks will be drawn down and the quantity demanded of durum among importers will decrease.

Table 4.1: Major Durum Producers (million bushels)

| Region | 2008/09 | 2009/10 Estimated | 2010/11 Projected |
|--|--------------|----------------------|----------------------|
| EU-27 | 367 | 301 | 301 |
| Turkey and Syria | 154 | 165 | 169 |
| North Africa | 129 | 187 | 162 |
| Canada | 203 | 198 | 112 |
| US | 85 | 110 | 107 |
| Mexico | 73 | 51 | 51 |
| Australia | 18 | 15 | 18 |
| Total (including other regions) | 1,429 | 1,374 | 1,275 |

Source: International Grains Council as reported by the Canadian Wheat Board, 2010.

Note: Figures have been rounded.

Table 4.2 shows the Canadian durum supply and disposition estimates published by Agriculture and Agri-Food Canada (AAFC) for the 2010/11 crop year in context of the previous two crop years. For 2010/11, production is estimated at 112 million bushels, down 43.2 percent from 2009/10, and the lowest since 1988/89 because of a 42.2 percent smaller seeded acreage and lower yields. It is anticipated the wet growing season and late harvest have negatively impacted durum quality. Total supply is forecast to fall by 21.1 percent to 211 million bushels as higher carryover stocks offset some of the decrease in production. Exports are forecast to increase three percent to 136 million bushels, due to steady demand in the European Union and lower production in North Africa. Ending stocks are expected to fall by almost 56 percent to 44 million bushels.

Table 4.2: Canadian Durum Supply and Disposition, 2008/09 to 2010/11 (million bushels)

| Item | 2008/09 | 2009/10 Estimated | 2011/11 Projected |
|------------------------------------|---------|----------------------|----------------------|
| Area planted (million acres) | 6.03 | 5.66 | 3.27 |
| Area harvested (million acres) | 5.97 | 5.51 | 3.13 |
| Yield per harvested acre (bushels) | 33.9 | 36.0 | 35.7 |
| Beginning stocks | 30 | 70 | 100 |
| Production | 203 | 198 | 112 |
| Imports | 0 | 0 | 0 |
| Total supply | 233 | 268 | 211 |
| Exports | 134 | 132 | 136 |
| Food & industrial use | 9 | 10 | 10 |
| Feed, wastage & dockage | 12 | 23 | 16 |
| Total use | 29 | 37 | 31 |
| Ending stocks | 70 | 100 | 44 |
| Average price (\$ / bushel) | 10.15 | 5.36 | 7.40 |

Source: Canada: Grains and Oilseeds Outlook: 2010-11, October 14, 2010, AAFC; CWB PRO, October 28, 2010. Note: Figures have been rounded.

4.1.1 Prices

With harvest in the North Hemisphere complete, it is apparent that high quality durum is going to be in short supply in 2010/11. The Canadian Wheat Board in its Pool Return Outlook has been increasing durum prices across all grades. Durum prices are currently 38 percent higher than average prices in 2009/10 but 27 percent lower than in 2008/09.

4.1.2 Outlook for 2011

With reduced global availability of food grade durum, prices in 2011 are expected to be bullish. It appears there will be a sufficient quantity of durum produced in Canada to satisfy foreign buyers, but those wanting the highest quality likely will face much higher prices. As at October 28, 2010, the Canadian Wheat Board Pool Return Outlook for durum with 13 percent protein for the 2010/11 crop year is \$7.40 per bushel. After deductions for freight and elevator charges, net prices to growers are just above \$6.00 per bushel.

Like other grains and oilseeds, durum prices continue to be influenced by bullishness in the United States corn market. As higher corn prices ration the quantity demanded of corn, profitable opportunities may arise for expected larger domestic supply of feed grade durum. The C\$/€ exchange rate also has a large impact in the durum price outlook. The price of C\$ in terms of euros has been falling which makes Canadian durum appear less expensive to European importers.

4.2 Non-durum Wheat

Several classes of non-durum wheat are grown in Canada: Six in the East (Canada Eastern Hard Red Winter, Canada Eastern Hard White Spring, Canada Eastern Red Spring, Canada Eastern Soft Red Winter, Canada Eastern Soft White Spring and Canada Eastern White Winter) and seven in the West (Canada Prairie Spring Red, Canada Prairie Spring White, Canada Western Extra Strong, Canada Western Hard White Spring, Canada Western Red Spring, Canada Western Red Winter, and Canada Western Soft White Spring). Non-durum wheat typically is used to make flour for leavened, flat and steamed breads, biscuits, cookies, cakes, breakfast cereal, noodles, and for fermentation to make alcohol. In Canada, it is also planted to a limited extent for livestock feed. Straw, an important co-product of wheat production, has several agricultural and industrial uses.

Wheat production in Canada typically varies between three to four percent of global wheat production. Most of the wheat produced in Canada is grown in the Prairie region and wheat produced there is marketed on behalf of growers by agents at the Canadian Wheat Board. Like durum, the majority of the wheat grown domestically is sold to foreign consumers. According to the World Agricultural Supply and Demand Estimates published by the United States Department of Agriculture, in 2009/10 exports from Canada represented more than 14 percent of global exports.

In May, forecasters at the International Grains Council began making projections for the 2010/11 crop year. Challenging growing conditions quickly became apparent in the European Union, Canada and the Black Sea Region which significantly altered their global wheat production estimates. A persistent, intense drought in Russia became a primary focus during the summer. As the Russian spring wheat crop was decimated, production forecasts were downgraded.

In response to the worsening conditions, on August 4, 2010, the Russian government banned exports of wheat, barley, rye, corn and flour for an indefinite temporary period, effective August 15. Typical users of imported Russian grains in Egypt, Algeria, Israel, Turkey, Lebanon, Bangladesh, Japan, South Korea and elsewhere began searching for alternative sources of supply.

The impact of the crop failure in Russia is slowly becoming more clear. Official estimates of the financial loss from the two-month record-severe drought were pegged at 33 billion rubles, or about C\$1.1 billion. More than one-quarter of the seeded area (27 million acres) were reportedly damaged. On October 28, 2010, the International Grains Councils issued their most recent projection of world wheat output in which it kept its global production forecast steady from the previous month at 23.7 billion bushels. Table 4.3 reveals the fall in production represents a 1.7 percent decline from the previous year and three percent drop from 2008/09. While wheat production estimates were reduced for some countries, notably the US and Australia, the reduction in production was offset by increases elsewhere, including China. The year-on-year fall in output is mostly a result of the adverse growing conditions in Russia. Although global consumption is expected to expand by one percent, the reduction in supply in 2010/11 will be buffered by very large carry-in stocks from the previous season. The effect on world trade could be 400 million bushels, or about 10 percent of world trade.

Table 4.3: World Wheat (including durum) Situation (billion bushels)

| | 2008/09 | 2009/10 Estimated | 2010/11 Projected |
|-------------|---------|----------------------|----------------------|
| Production | 25.2 | 24.5 | 23.7 |
| Consumption | 23.4 | 23.8 | 24.2 |
| Carryover | 6.2 | 7.1 | 6.7 |
| Trade | 5.0 | 4.6 | 4.4 |

Source: International Grains Council, 2010.

Note: Figures have been rounded.

Table 4.4 depicts the most recent Agriculture and Agri-Food Canada forecast for the supply and disposition of non-durum wheat. Production in 2010/11 is estimated to decrease by 10.7 percent to 704 million bushels down from 788 million bushels last year and 848 million bushels two years ago. As a result of lower seeded area and reduced yields, production is expected to decrease for all classes of wheat grown in Canada except for soft white spring wheat. The combination of cool wet weather throughout much of the crop year delayed seeding and harvesting activities and negatively impacted quality. Supply is estimated to drop by seven percent to 896 million bushels, as higher carryover stocks offset some of the reduced production. Exports are forecast to decrease to 514 million bushels from 543 because of lower domestic supply. At the end of the 2010/11 season, forecasters at Agriculture and Agri-Food Canada are expecting non-durum wheat stocks by the end of the crop year to be at their lowest levels since 1980.

Table 4.4: Canadian Non-durum Supply and Disposition, 2007/08 to 2009/10 (million bushels)

| | 2008/09 | 2009/10 Estimated | 2010/11 Projected |
|------------------------------------|---------|----------------------|----------------------|
| Area planted (million acres) | 19.16 | 19.21 | 17.75 |
| Area harvested (million acres) | 18.82 | 18.31 | 16.92 |
| Yield per harvested acre (bushels) | 45.1 | 43.1 | 41.6 |
| Beginning stocks | 132 | 171 | 188 |
| Production | 848 | 788 | 704 |
| Imports | 1 | 4 | 4 |
| Total supply | 981 | 963 | 896 |
| Exports | 550 | 543 | 514 |
| Food & industrial use | 116 | 118 | 121 |
| Feed, wastage & dockage | 115 | 87 | 97 |
| Total use | 261 | 232 | 249 |
| Ending stocks | 171 | 188 | 132 |
| Average price (\$ / bushel) | 8.22 | 5.99 | 7.97 |

Source: Canada: Grains and Oilseeds Outlook: 2010-11, October 14, 2010, AAFC; CWB PRO, October 28, 2010.

Note: Figures have been rounded.

4.2.1 Prices

The Canadian Wheat Board Pool Return Outlook for No. 1 CWRS wheat containing 12.5 percent protein is \$7.97 per bushel, \$1.98 above the average price in 2009/10 and just \$0.25 below the price in 2008/09. Assuming freight and handling charges of \$1.38 per bushel, farm gate prices for non-durum translate to about \$6.59 per bushel. The relatively higher prices for wheat are the outworking of global market processes, most notably that for corn in the United States and the inventory positions of wheat exporters, both in the Northern and Southern Hemispheres.

4.2.2 Outlook for 2011

The Canadian Wheat Board Pool Return Outlook for non-durum wheat is 33 percent above last year due to lower production in Russia, Canada and the European Union and higher prices for corn and soybeans in the United States. Export restrictions remain in place in Russia and it does not appear that wheat from the Black Sea region is going to constitute a large proportion of global wheat trade. Growing conditions in Australia are mixed with a poor harvest forecast for the west and very good conditions are reported in the East. After a very bad drought, Argentinean producers this winter are anticipating an historically large wheat crop and an increase in export sales.

Markets for wheat do not operate in isolation of other commodity markets. World wheat prices will be supported and influenced by corn, and to lesser extent soybean prices in the United States and by macro-economic factors linked to government responses to the financial crisis and energy concerns which are sending mixed signals to growers, handlers and users of agricultural commodities. Even with the expected dip into global wheat stocks for 2010/11, remaining inventory might not reach a level to support markedly higher prices.

4.3 Barley

Barley is a major livestock feed crop in Western Canada, with smaller amounts used for malting (mostly for beer and some distilled beverages), foods such as soups, stews and bread, and for a variety of industrial applications. Most of the barley produced in Canada is grown in the Prairie region. If the barley produced in this region is destined for export or domestic food consumption or for malt, it must be marketed on behalf of growers by agents at the Canadian Wheat Board. Feed barley can be marketed domestically through the Canadian Wheat Board, a grain handling firm or privately through local cash markets.

According to the Food and Agriculture Organization of the United Nations, in terms of global output the quantity of barley produced in Canada in 2008/09 (541 million bushels) ranked fourth to cumulative output of the EU-27 (3,009 million bushels), Russia (1061 million bushels) and the Ukraine (579 million bushels). Aggregate barley production in the United States, at 241 million bushels is less than half of that in Canada. The most important export markets for Canadian growers include those in Asia (Japan, South Korea, Saudi Arabia) and Central and South America (Columbia, Ecuador, Mexico, Peru) and the United States.

Poor growing conditions in the Northern Hemisphere during 2010 and government interventionism in Eastern Europe have impacted the global supply-demand balance. While barley growers in Canada endured a cool wet summer, those in Russia and in the Ukraine experienced the worst drought in at least a half century, ruining crops. The price of barley doubled within the six weeks, which by mid-August, had ignited fear the cost of red meat and poultry would also rise in dramatic fashion. In response, the Ukrainian agriculture Minister announced the implementation of barley export quotas to limit overseas sales until December 31, 2010. In Russia, barley exports have been prohibited outright until July 1, 2011.

Table 4.5 reveals the most recent global barley demand and supply estimates, published by the United States Department of Agriculture. Compared to the previous crop year, total production is forecast to fall more than 17 percent to 5,684 million bushels compared to the previous crop year and by more than 20 percent compared to 2008/09. The fall in output is a direct consequence of the drought in Russia and in the Ukraine, less severe climate related production impediments across the European Union, and the soggy cool conditions in the Canadian Prairies. In contrast to production, global consumption is expected to fall slightly, by less than three percent, to 6,410 million bushels. The volume of trade is projected to fall almost seven percent with stock levels decreasing by more than two-fifths.

Table 4.5: World Barley Situation (million bushels)

| | 2008/09 | 2009/10 Estimated | 2010/11 Projected |
|-------------|---------|----------------------|----------------------|
| Production | 7,135 | 6,871 | 5,684 |
| Consumption | 6,636 | 6,594 | 6,410 |
| Carryover | 1,422 | 1,699 | 973 |
| Trade | 836 | 798 | 743 |

Source: International Grains Council, 2010.

Note: Figures have been rounded.

In terms of volume, the United States is among the most important export destination for barley produced in Canada. It is thus an important source of barley price information for marketing agents at the Canadian Wheat Board. Should the Federal Government remove the marketing of barley for export, domestic food consumption and for malt from the exclusive purview of the Canadian Wheat Board (something that is less likely this year compared to last), expanded marketing alternatives for growers in Canada will influence the process of price discovery and the pattern of barley production and end-use.

Table 4.6 shows the barley supply and use estimates in the United States for 2010/11 in context of the previous two crop years. The estimates for 2010/11 from the United States Department of Agriculture show a 6.6 percent decrease year-over-year in total supply resulting from a 19 percent decrease in acreage, a 20 percent decrease in production and 12 percent decrease in imports. Barley ending stocks are predicted to fall by more than one-fourth. The USDA is also forecasting the average farm price for 2010/11 to fall within a range from US\$3.75-\$4.25 per bushel, down from US\$4.66 per bushel in 2009/10.

Table 4.6: US Barley Supply and Use, 2008/09 to 2010/11 (million bushels)

| Item | 2008/09 | 2009/10 Estimated | 2010/11 Projected |
|------------------------------------|---------|----------------------|----------------------|
| Area planted (million acres) | 4.2 | 3.6 | 2.9 |
| Area harvested (million acres) | 3.8 | 3.1 | 2.5 |
| Yield per harvested acre (bushels) | 63.6 | 73.0 | 73.1 |
| Beginning stocks | 68 | 89 | 115 |
| Production | 240 | 227 | 180 |
| Imports | 29 | 17 | 15 |
| Total supply | 337 | 333 | 311 |
| Feed and residual | 67 | 48 | 50 |
| Food, seed and industrial | 169 | 164 | 165 |
| Total domestic | 236 | 212 | 215 |
| Exports | 13 | 6 | 10 |
| Total use | 249 | 217 | 225 |
| Ending stocks | 89 | 115 | 86 |
| Avg. farm price (US\$ / bushel) | 5.37 | 4.66 | 3.75-4.25 |

Source: World Agricultural Supply and Demand Estimates WASDE-488, November 9, 2010, USDA

Note: Figures have been rounded.

The domestic market for feed barley has been the largest component of total Canadian barley consumption. In the Lethbridge-Calgary-Brooks area between 140 million to 230 million bushels of feed barley is consumed each year by the cattle feeding industry. This represents approximately one-third of the barley produced in Western Canada, making Southern Alberta the primary feed barley market in the country and the main reference point for the pricing. Feed barley prices at Lethbridge are highly correlated with corn prices in the United States. The appreciation of the Canadian dollar has lowered the landed price of US corn, in both eastern and western Canada. This has contributed to increased imports of corn and distillers dried grains from the United States and the creation of an upper price limit for domestic feed barley.

Table 4.7 shows the most recent barley market forecast from Agriculture and Agri-food Canada for 2010/11. Barley production is estimated to decrease by 13.2 percent reflecting a steady average yield of 60.2 bushels per acre on a reduced harvested land base. Total barley supply is expected to be 12 percent lower than in 2009/10 and almost 19 percent below that in 2008/09. Domestic feed use is projected to decline due to the lower barley availability, but also because relatively fewer cattle are expected to be placed in feedlots. Ending stocks are forecast to decrease by almost 60 percent to a record low level.

Table 4.7: Canadian Barley Supply and Disposition, 2008/09 to 2010/11 (million bushels)

| Item | 2008/09 | 2009/10 Estimated | 2010/11 Projected |
|------------------------------------|---------|----------------------|----------------------|
| Area planted (million acres) | 9.36 | 8.66 | 7.21 |
| Area harvested (million acres) | 8.65 | 7.21 | 6.30 |
| Yield per harvested acre (bushels) | 62.5 | 60.6 | 60.2 |
| Beginning stocks | 72 | 131 | 119 |
| Production | 541 | 437 | 379 |
| Imports | 2 | 2 | 2 |
| Total supply | 615 | 570 | 500 |
| Exports | 110 | 97 | 101 |
| Food & industrial use | 7 | 6 | 6 |
| Feed, wastage & dockage | 353 | 336 | 331 |
| Total use | 374 | 354 | 348 |
| Ending stocks | 131 | 119 | 51 |
| Average price (\$ / bushel) | 3.90 | 3.33 | 3.37-4.03 |

Source: Canada: Grains and Oilseeds Outlook: 2010-11, October 14, 2010, AAFC
 Note: Figures have been rounded.

4.3.1 Prices

At present the cash price for feed barley in Lethbridge is \$3.75 per bushel, which is up from \$3.30 per bushel a year ago. The Canadian Wheat Board Pool Return Outlook for feed barley is \$5.05 per bushel and \$5.66 per bushel for Select two-row malting barley, each significantly higher than the previous year. To arrive at farm gate prices, elevation and handling charges must be deducted. Two factors contributing to higher barley prices can be identified: higher prices for coarse grains in the United States and reduced global barley supplies.

4.3.2 Outlook for 2011

Export restrictions in Russia and the Ukraine have essentially eliminated what has until recently been the cheapest sources of supply. This interventionism combined with reduced barley production in the Northern Hemisphere will likely sustain barley prices at higher levels throughout the entire crop year. In response to high prices, importers and domestic users of feed barley may switch to less costly feed grains. Tempering this bullish outlook for barley prices is the prospect of a 363 million bushel bumper crop in Australia. This new, large supply of Australian barley may marginally reduce world prices. Indeed, Chinese importers of malting barley may withhold large purchases from the Canadian Wheat Board until after Australian harvest is complete. As of the first quarter of the 2010/11 crop year, barley exports from Canada are down 40 percent compared to the previous year.

4.4 Oats

While oats are suitable for human consumption as porridge, breakfast cereal, cookies and snack bars, one of the most common uses is as livestock feed. About 73 percent of global oat production is consumed as animal feed. Oats also can be used in cosmetics, lacquers and dyes.

The major production regions are Europe (64 percent), North America (21 percent), and Oceania (5 percent). Producers in Russia supply almost one-fourth of global production. The highest yields often occur in Ireland, where growing conditions enable producers to achieve as much as three times the global average.

Like most other coarse grains, oats production is geographically concentrated in Western Canada, but producers are found in every province of the country. Import and export markets for oats produced in Canada are millers in the United States including General Mills and PepsiCo Inc's Quaker Oats for human consumption and for livestock feed. In 2009/10, more than 98 percent of Canadian oat exports went to buyers located in the United States. Oats account for about 6 percent of the production and exports of grains and oilseeds in Canada.

Since oats were released from the Canadian Wheat Board's mandate in 1989, the Canadian growers have responded to price signals generated through market processes. As is with the case of corn and soybeans in Canada, domestic oat prices are based off those in the United States. Domestic prices are the outworking of prices in the United States that are place and time specific (i.e. oats futures prices discovered at the Chicago Mercantile Exchange) and a basis that captures variations in the currency exchange rate, costs of transportation and handling, and local supply and demand conditions. Changing conditions in the oats market (and other grains and oilseeds markets) have important consequences for oats growers in Canada.

Table 4.8 depicts the oats supply and use estimates in the United States for 2010/11 in context of the previous two crop years. The estimates from the United States Department of Agriculture show low and declining levels of oat acreage in 2010/11, slightly reduced yields and production. The 2010/11 oats crop in the United States is projected to have both the lowest harvested area and production on record. Reduced demand for oats among millers and the displacement of oats by corn in livestock feed rations is expected to reduce imports by 15 million bushels. To meet demand with sustainably lower production will imply a very large inventory draw-down. The USDA forecast for the average farm price for 2010/2011 ranges from US\$2.15-US\$2.55 per bushel, up from US\$2.02 per bushel, the average price in 2009/10.

Table 4.8: US Oats Supply and Use, 2008/09 to 2010/11 (million bushels)

| Item | 2008/09 | 2009/10 Estimated | 2010/11 Projected |
|------------------------------------|---------|----------------------|----------------------|
| Area planted (million acres) | 3.2 | 3.4 | 3.1 |
| Area harvested (million acres) | 1.4 | 1.4 | 1.3 |
| Yield per harvested acre (bushels) | 63.7 | 67.5 | 64.3 |
| Beginning stocks | 67 | 84 | 80 |
| Production | 89 | 93 | 81 |
| Imports | 115 | 95 | 80 |
| Total supply | 270 | 272 | 242 |
| Feed and residual | 108 | 115 | 115 |
| Food, seed and industrial | 75 | 75 | 76 |
| Total domestic | 183 | 190 | 191 |
| Exports | 3 | 2 | 3 |
| Total use | 186 | 192 | 194 |
| Ending stocks | 84 | 80 | 48 |
| Avg. farm price (US\$ / bushel) | 3.15 | 2.02 | 2.15-2.55 |

Source: World Agricultural Supply and Demand Estimates WASDE-488-13, November 9, 2010, USDA

Note: Figures have been rounded.

In Canada, oats production is expected to reach its lowest level since 1990. Table 4.9 shows that forecasters at Agriculture and Agri-Food Canada expect a year-over-year reduction in oats acreage of 23 percent, a yield decrease of 10.7 percent, and a production decrease of 20.1 percent. These decreases are based in large part from the very wet conditions during the seeding period. Total supply is forecast to drop by 21.2 percent as higher existing inventories serve to partly offset the drop in production. Exports, mostly to buyers in the United States, are expected to fall while ending stocks decline by 44.4 percent to 42 million bushels. Prices are predicted to increase by \$0.04 to \$0.50 per bushel.

Table 4.9: Canadian Oats Supply and Disposition, 2008/09 to 2010/11 (million bushels)

| Item | 2008/09 | 2009/10 Estimated | 2010/11 Projected |
|------------------------------------|---------|----------------------|----------------------|
| Area planted (million acres) | 4.34 | 3.73 | 2.87 |
| Area harvested (million acres) | 3.58 | 2.34 | 2.09 |
| Yield per harvested acre (bushels) | 77.4 | 80.6 | 71.9 |
| Beginning stocks | 62 | 99 | 76 |
| Production | 277 | 188 | 150 |
| Imports | 1 | 1 | 1 |
| Total supply | 340 | 289 | 227 |
| Exports | 158 | 135 | 117 |
| Food & industrial use | 4 | 4 | 5 |
| Feed, wastage & dockage | 70 | 68 | 58 |
| Total use | 83 | 78 | 68 |
| Ending stocks | 99 | 76 | 42 |
| Average price (C\$ / bushel) | 2.95 | 2.58 | 2.62-3.08 |

Source: Canada: Grains and Oilseeds Outlook: 2010-11, October 14, 2010, AAFC

Note: Figures have been rounded.

4.4.1 Prices

Near term oat futures prices on the Chicago Mercantile Exchange have been on the rise the last three months and have stabilized in the US\$3.70 - US\$3.83 per bushel range. Current cash bids in central Alberta are in the C\$2.00 - C\$2.50 per bushel range.

4.4.2 Outlook for 2011

With global oats production forecast to decline by 9 percent in 2010/11, price forecasts are bullish. In North America, oats prices tend to be quite correlated with corn prices and in general track close to each other. Oat trade, like production, has been steady relative to other grains for the past ten years. Buyers in the United States, Mexico and Japan on average account for 81 percent, four percent and three percent, respectively, of world oat imports. Growers in Canada, the European Union and Australia on average account for 83 percent, six percent and six percent, respectively, of world oat exports. This is not likely to change notably if oats become slightly more expensive compared to other grains.

4.5 Canola

Canola is one of two cultivars of rapeseed. Rapeseed is the traditional name for the group of oilseed crops in the *Brassicaceae* family. It can be divided into two types – “industrial rapeseed” or canola. Visually, the seeds of the two types are identical. The distinguishing difference between industrial rapeseed and canola is their fatty acid profiles. Generally, industrial rapeseed refers to any rapeseed with a high content (at least 45 percent) of erucic acid in the oil. Canola refers to the edible oil crop that is characterized by low erucic acid (less than two percent).

Industrial rapeseed is grown all over the world, but Canada is where most of the canola is produced. Canola is grown primarily in the Prairie region, with some acreage in Ontario. It is also produced in the European Union, the United States, Australia and South Africa. It is used to produce edible oil low in saturated fats for human consumption (cooking oil, margarine,

salad dressing, coffee whiteners) and to produce high protein livestock feed. Canola is an important ingredient in many industrial settings as well as including, among others, the manufacture of biodiesel, engine lubricants, plastics, soaps, fertilizers, inks and cosmetics.

According to the United States Department of Agriculture, canola/rapeseed is the third leading source of vegetable oil in the world, after soybean and oil palm, and the second leading source of protein meal, although only one-fifth of the production of soybean meal. The important foreign markets for canola seed produced in Canada are in Japan, Mexico, China and Pakistan, while the bulk of canola oil and meal goes to the United States and China, with smaller amounts shipped to Taiwan, Mexico, and several countries in Europe.

Table 4.10 identifies and ranks the eight largest regions of global canola/rapeseed supply using projections provided by the United States Department of Agriculture. Production in 2010/11 is forecast to fall markedly in the three top producing regions (down 6.8 percent in the EU-27, down 6.3 percent in China, and down 16 percent in Canada). In contrast, the expectation is that growers in India, Australia and the United States are going to expand output.

Table 4.10: Major Canola/Rapeseed Producers (million bushels)

| Region | 2008/09 | 2009/10 Estimated | 2010/11 Projected |
|--|--------------|----------------------|----------------------|
| EU-27 | 857 | 964 | 898 |
| China | 544 | 614 | 575 |
| Canada | 568 | 558 | 469 |
| India | 301 | 287 | 314 |
| Australia | 83 | 86 | 97 |
| Ukraine | 130 | 85 | 63 |
| United States | 30 | 30 | 52 |
| Russia | 34 | 30 | 22 |
| Total (including other regions) | 2,605 | 2,718 | 2,569 |

Source: United States Department of Agriculture, Foreign Agricultural Service, November 9, 2010.

Note: Figures have been rounded.

Table 4.11 characterizes the most recent estimates by Agriculture and Agri-Food Canada regarding the supply and disposition of canola for the 2010/11 crop year. Production is estimated at 469 million bushels, down by 16 percent from 2009/10 as a result of an 18.2 percent drop in yield. As growers in Western Canada perceived particularly attractive margins compared to competing crops, a record number of acres were seeded to canola in 2010. Unfortunately, excessive moisture, uneven germination, and a cool growing-season reduced the harvested area and expected yields. The supply of canola is estimated to decrease by 9.9 percent to 575 million bushels due to lower production.

Domestic crush is forecast to rise to a record 261 million bushels, as each of three new large crushing plants (Cargill at Clavet, SK; Louis Dreyfus Canada at Yorktown, SK; James Richardson International at Yorkton, SK) will be fully operational during 2010/11. However, local tightness in supplies may reduce crush margins. It is anticipated that ending stocks will approach their lowest level since 2003/04.

Table 4.11: Canadian Canola Supply and Disposition, 2008/09 to 2010/11 (million bushels)

| Item | 2008/09 | 2009/10 Estimated | 2010/11 Projected |
|------------------------------------|---------|----------------------|----------------------|
| Area planted (million acres) | 16.16 | 16.20 | 16.68 |
| Area harvested (million acres) | 16.05 | 15.09 | 15.55 |
| Yield per harvested acre (bushels) | 34.8 | 36.2 | 29.6 |
| Beginning stocks | 66 | 75 | 95 |
| Production | 568 | 558 | 469 |
| Imports | 5 | 6 | 11 |
| Total supply | 639 | 638 | 575 |
| Exports | 355 | 320 | 270 |
| Food & industrial use | 192 | 215 | 247 |
| Feed, wastage & dockage | 15 | 5 | 11 |
| Total use | 209 | 223 | 261 |
| Ending stocks | 75 | 95 | 45 |
| Average price (C\$ / bushel) | 10.59 | 9.66 | 10.43-11.34 |

Source: Canada: Grains and Oilseeds Outlook: 2010-11, October 14, 2010, AAFC

Note: Figures have been rounded.

During the fall of 2009, canola growers in Canada were jolted by sudden phyto-sanitary problems with canola meal exports to the United States and then canola seed exports to China. In August and September the United States Federal Drug Administration halted canola meal shipments from five Canadian plants at the border over concerns about salmonella bacteria. The amount of canola processed by crushers from August 1 through mid-October was down 6 percent, or 2.25 million bushels, from the same period a year earlier. On December 8, 2009, the United States Food and Drug Administration lifted the import restrictions for one large plant, followed by two more on January 16, 2010.

The Canadian Food Inspection Agency announced that it received a notice from the Chinese central government on October 20, 2009 that effective November 15, 2009 a phyto-sanitary certificate was required for canola shipments to China certifying that the shipments were free from blackleg (*Leptosphaeria maculans*). The Canadian Inspection Agency indicated it would not be able to issue a certificate as blackleg is a common plant disease of canola in Canada and there is an agreed upon testing method. The Chinese government did not grant an extension to the November 15 deadline. China is an important market for Canadian canola: In 2008/09 China was Canada's top canola seed market, importing 129 million bushels valued at \$1.3 billion. The Australian government was also notified that canola shipments from Australia to China must be certified free from blackleg effective as of October 15, 2009.

The Canadian government and the Canola Council of Canada spent a lot of time negotiating with their Chinese counterparts to find a compromise. Eventually, Canadian canola seed was allowed into four crushing facilities geographically located on the Chinese coast, isolated from domestic rapeseed crops. However two months into the 2010/11 crop year, Chinese buyers imported 7.905 million bushels vs. 16.229 million bushels between August 1 and September 30, 2009. Other shipments by destination, with the previous crop year in brackets for comparison, include Japan 17.074 million (14.077 million); Mexico 7.654 million (5.152 million); United Arab Emirates 4.774 million (0); Pakistan 4.078 million (0); Bangladesh 2.124 million (0).

4.5.1 Prices

Canola prices in Canada are forecast to rise in 2011 by as much as C\$1.68 per bushel resulting from higher soybean oil prices in the United States, reduced production in Canada and strong vegetable oil demand globally.

4.5.2 Outlook for 2011

Canola has been a consistently profitable crop for both growers and processors. In fact, The Canola Council of Canada has set an ambitious annual production target of 674 million bushels by 2015. This objective is to be realized by a 35 percent increase in yields and 30 percent increase in acreage. The price outlook for 2011 is somewhat positive because of the effects of rising prices in competing oilseed markets and access to markets in the United States and China which were jeopardized by government intervention in 2010. However, the level of accessibility must be interpreted as being somewhat tenuous relative to 2008/09.

4.6 Flaxseed

Flaxseed is processed into a variety of diverse food products ranging from bakery products to nutritional supplements. It is rich in omega-3 fatty acids, especially alpha-linolenic acid, which appears to be beneficial for heart disease, inflammatory bowel disease, arthritis and a variety of other health conditions. While various parts of the plant can be used to make linen, dye, paper, medicines, fishing nets, hair gels and soap, it is better known as an ingredient in paints, fiber and cattle feed. Flaxseed oil (more commonly known as linseed oil) is one of the oldest commercial oils and has been used for centuries as a drying oil in paints and varnishes.

Producers in Canada grow about one-third of the total global supply of flax and are responsible for 80 percent of the quantity of flaxseed exports. The most important export destinations for flaxseed produced in Canada in terms of volume are Belgium and the United States, followed distantly by the Netherlands and Japan. Other geographic regions in which large amounts of flaxseed are produced include China (25 percent) and India (nine percent), the United States (eight percent) and Ethiopia (three percent).

Canadian producers of flaxseed have endured exceptionally volatile markets since last September. On September 8, 2009, the European Commission issued a Rapid Alert notification, confirming the presence of CDC Triffid flax, a glyphosate tolerant genetically modified variety that was never commercially released, in some Canadian flax samples. The European government subsequently banned flax imports from Canadian producers. Cash prices in the central Prairie region dropped by as much as \$2.50 per bushel from the \$8.25 to \$8.90 per bushel range. Later, grain companies stopped buying flax at any price because of the lack of forward orders from reliable, traditional European importers. While central authorities in Canada and in the European Union together with the Flax Council of Canada, Canadian flax exporters and DG Sanco of the European Commission, developed a protocol in November 2009 to enable resumption of trade. Effective December 1, 2009 Canadian flax buyers began to require producers to obtain tests of samples before delivery to determine possible Triffid content.

The procedures to test and segregate flaxseed appear so far to have satisfied European authorities that imports from Canada are Triffid-free. Exports to European customers, particularly those in Belgium, have increased as the incidence of positive samples in Canada has fallen. Meantime, customers in China and the United States have been buying flax not acceptable in Europe. As a result of strong demand beyond the European market, the cash discount in Canada for flaxseed containing Triffid has fallen to nearly \$1 per bushel.

Table 4.12 shows the most recent Canadian flaxseed market forecast from Agriculture and Agri-food Canada for 2010/11 in the context of the two previous crop years. For 2010/11, production is estimated at 21.5 million bushels, a decrease of 43 percent from last year due to a sharp drop in seeded area and a small decline in average yield. While the precise size of the 2010 harvest will not be publicly known until the final crop production report comes out December 3, it will be between three-fifths and two-thirds of the 2009 crop. With carry-in of 11.4 million bushels total supply will be 26 percent less than in 2008/09. Exports are forecast to return to 2008/09 levels with stocks by July 31, 2011 falling as a result. Prices are forecast to rise by at least 24 percent and as much as 36 percent above last year.

Table 4.12: Canadian Flax Supply and Disposition, 2008/09 to 2010/11 (million bushels)

| Item | 2008/09 | 2009/10 Estimated | 2010/11 Projected |
|------------------------------------|---------|----------------------|----------------------|
| Area planted (million acres) | 1.56 | 1.71 | 1.07 |
| Area harvested (million acres) | 1.54 | 1.54 | 0.99 |
| Yield per harvested acre (bushels) | 22.0 | 23.7 | 21.5 |
| Beginning stocks | 7 | 9 | 11 |
| Production | 34 | 37 | 21 |
| Imports | 0 | 0 | 0 |
| Total supply | 41 | 46 | 33 |
| Exports | 25 | 30 | 24 |
| Food & industrial use | n/a | n/a | n/a |
| Feed, wastage & dockage | n/a | n/a | n/a |
| Total use | 7 | 4 | 5 |
| Ending stocks | 9 | 11 | 4 |
| Average price (C\$ / bushel) | 12.70 | 10.77 | 13.34-14.61 |

Source: Canada: Grains and Oilseeds Outlook: 2010-11, October 14, 2010, AAFC

Note: Figures have been rounded.

4.6.1 Prices

Since flaxseed futures were delisted from the Winnipeg Commodity Exchange in 2004, there is no standard pricing reference for the crop in Canada. Through the fall, cash bids in Western Canada were holding steady, but are now slowly rising. Current cash prices range from \$13 to \$13.75 per bushel in Saskatchewan and Alberta and around \$14.30 per bushel in Manitoba. Near term prices are expected to remain steady with some potential for further increases, given uncertainty regarding the supply situation as well as a bullish outlook among producers.

The quantity demanded among importers in the United States and China may moderate as prices continue to climb. According to the Canadian Grain Commission, in the first three months of the 2010/11 crop year flaxseed shipments have totaled 2.95 million bushels including 1.95 million bushels to Belgian consumers despite the Triffid related import restrictions. By way of comparison, during the first 12 weeks of the 2009/10 crop year flaxseed exports totaled 1.77 million bushels. Exports to date are still well below the 4.76 million bushels of two years earlier.

4.6.2 Outlook for 2011

Flaxseed exports in 2010-11 seem poised to absorb reduced domestic production. Current cash prices in Saskatchewan for No. 1 flaxseed (\$13.82 per bushel) are now well above that for No. 1 canola (\$10.77 per bushel). Prices for 2011 are expected to be considerably higher than last year because of reduced supply in Canada in the face of strong demand among importers. Buyers without alternatives to flaxseed could face prices of \$15.25 per bushel or higher before the 2011 crop is harvested.

5.0 Grains & Oilseeds – Eastern Canada

Corn and soybeans are the two largest grain and oilseed crops grown in Eastern Canada in terms of farm cash receipts. In 2009, total Canadian farm cash receipts for corn were \$1.30 billion and soybeans were \$1.34 billion. Soybeans ranked third while corn was fourth behind all wheat and canola in the grains and oilseeds category. The figures below relate to the September 1 to August 31 crop year.

5.1 Corn

The US is the world's largest corn producer and represented 41 percent of total world production in the 2009/10 crop year. The next largest producer was China with 19 percent of the world's production. The US was the world's largest corn exporter with about 54 percent of total world exports followed by Argentina at 16 percent and Brazil with a ten percent market share. Table 5.1 shows the US corn supply and use estimates for the 2008 to 2010 crop years as published by USDA. The estimates for the 2010/11 crop year show a four percent decrease in total production and a three percent increase in total use. Ending stocks are forecast to be down 52 percent. Total use is up due to increases in feed for livestock, food, seed and industrial use and ethanol for fuel requirements. The amount of corn required for ethanol production is forecast to represent 34 percent of total supply, a three percent increase from the 2009 crop year. Feed for livestock will take about 37 percent of total supply which is up two percent from the previous year. The USDA forecast for the average farm price for 2010/11 ranges from US\$4.80-\$5.60 per bushel. This is a significant increase from the 2009/10 price of \$3.55 per bushel.

Table 5.1: US Corn Supply and Use, 2008/09 to 2010/11 (million bushels)

| Item | 2008/09 | 2009/10 Estimated | 2010/11 Projected |
|------------------------------------|---------|----------------------|----------------------|
| Area planted (million acres) | 86.0 | 86.5 | 88.2 |
| Area harvested (million acres) | 78.6 | 79.6 | 81.3 |
| Yield per harvested acre (bushels) | 153.9 | 164.7 | 154.3 |
| Beginning stocks | 1,624 | 1,673 | 1708 |
| Production | 12,092 | 13,110 | 12,540 |
| Imports | 14 | 8 | 10 |
| Total supply | 13,729 | 14,792 | 14,257 |
| Feed and residual | 5,182 | 5,159 | 5300 |
| Food, seed and industrial | 5,025 | 5,938 | 6180 |
| Ethanol for fuel | 3,709 | 4,568 | 4800 |
| Exports | 1,849 | 1,987 | 1950 |
| Total use | 12,056 | 13,084 | 13,430 |
| Ending stocks | 1,673 | 1708 | 827 |
| Avg. farm price (US\$ / bushel) | 4.06 | 3.55 | 4.80-5.60 |

Source: World Agricultural Supply and Demand Estimates WASDE-488-12, November 9, 2010, USDA

Note: Figures have been rounded.

Table 5.2 shows the Canadian corn supply and use estimates for the 2008 to 2010 crop years as published by AAFC. The Canadian estimates for the 2010/11 crop year show increases in total supply and total domestic use compared to 2009/10. Total supply is up due to a 14 percent

increase in production and 11 percent increase in imports. Total use is up due to a nine percent increase in food and industrial use (which includes ethanol production) and a ten percent increase in livestock feed requirements. The amount of corn required for food and industrial use is forecast to represent 29 percent of total supply. Feed for livestock will take about 57 percent of total supply. The AAFC forecast for the average farm price for Chatham, Ontario for 2010/11 ranges from \$3.94-\$4.70 per bushel which is up significantly from \$3.66 in 2009/10.

Table 5.2: Canadian Corn Supply and Disposition, 2008/09 to 2010/11 (million bushels)

| Item | 2008/09 | 2009/10 Estimated | 2010/11 Projected |
|------------------------------------|---------|----------------------|----------------------|
| Area planted (million acres) | 2.98 | 2.97 | 2.97 |
| Area harvested (million acres) | 2.89 | 2.82 | 2.94 |
| Yield per harvested acre (bushels) | 144.4 | 133.4 | 145.6 |
| Beginning stocks | 57 | 73 | 69 |
| Production | 417 | 376 | 428 |
| Imports | 73 | 85 | 94 |
| Total supply | 548 | 534 | 591 |
| Exports | 13 | 4 | 8 |
| Food & industrial use | 162 | 155 | 169 |
| Feed, wastage & dockage | 299 | 305 | 335 |
| Total use | 462 | 461 | 505 |
| Ending stocks | 73 | 69 | 79 |
| Average price (C\$ / bushel) | 4.24 | 3.66 | 3.94-4.70 |

Source: Canada: Grains and Oilseeds Outlook: 2010-11, October 14, 2010, AAFC

Note: Figures have been rounded.

5.1.1 Prices

Canadian corn prices are comprised of a US price and a local "basis". This basis is added to the US price to adjust it to a Canadian price by accounting for the C\$/US\$ exchange rate, transportation, handling and local supply and demand conditions. The local basis for Chatham, Ontario tends to be quite variable. The five year average (2005 to 2009 crop years) Chatham old crop basis is -\$0.02 per bushel with a standard deviation of \$0.42. This means that approximately 67 percent of the time, the basis was in the -\$0.44 to \$0.40 per bushel range. The basis in the 2009 crop year (September 2009 to August 2010) averaged approximately -\$0.05 per bushel under the Chicago nearby futures price.

5.1.2 Outlook for 2011

World corn production for 2010/11 is forecast to be 818.52 million metric tons which is up one percent from last year and up three percent from 2008/09. Total world corn use is estimated at 837.31 million metric tonnes. This is a three percent increase from 2009/10 and will cause world corn ending stocks to drop 19 million metric tonnes or 13 percent. As a result of stronger US demand and lower world coarse grain supplies, the corn market is forecast to see higher prices in the 2010/11 crop year as compared to 2009/10. The USDA is forecasting a US average farm price of US\$4.80-\$5.60 per bushel. AAFC is estimating the Chatham, Ontario corn price to average from \$3.94-\$4.70 per bushel. University of Guelph, Ridgetown Campus projections using historical seasonality patterns, forecast the Chatham, Ontario corn price to average in the \$4.30-\$4.80 per bushel range.

5.2 Soybeans

The US is also the world's largest soybean producer and represented 35 percent of total world production in the 2009/10 crop year. Brazil was the next largest producer at 27 percent followed by Argentina at 21 percent. The US was the world's largest soybean exporter with about 44 percent of total world exports followed by Brazil at 31 percent and Argentina at 14 percent. Table 5.3 shows the US soybean supply and use estimates for the 2008 to 2010 crop years as published by USDA. The estimates for the 2010/11 crop year show an increase in total supply and a slight decrease in total use. This will result in ending stocks which are higher than the previous two years. Total supply is up due to slightly higher production than in 2009. This is another record high crop. Total use is showing a decrease in crushings but an increase in exports. The amount of soybeans required for domestic crushing is forecast to represent 47 percent of total supply. Exports will take about 44 percent of total supply. The USDA forecast for the average farm price for 2010/11 ranges from US\$10.70-\$12.20 per bushel which is up from \$9.59 in 2009/10.

Table 5.3: US Soybeans Supply and Use, 2008/09 to 2010/11 (million bushels)

| Item | 2008/09 | 2009/10 Estimated | 2010/11 Projected |
|------------------------------------|---------|----------------------|----------------------|
| Area planted (million acres) | 75.7 | 77.5 | 77.7 |
| Area harvested (million acres) | 74.7 | 76.4 | 76.8 |
| Yield per harvested acre (bushels) | 39.7 | 44.0 | 43.9 |
| Beginning stocks | 205 | 138 | 151 |
| Production | 2,967 | 3,359 | 3,375 |
| Imports | 13 | 15 | 10 |
| Total supply | 3,185 | 3,512 | 3,536 |
| Crushings | 1,662 | 1,752 | 1,665 |
| Exports | 1,279 | 1,501 | 1,570 |
| Seed | 90 | 90 | 88 |
| Residual | 16 | 18 | 29 |
| Total use | 3,047 | 3,361 | 3,351 |
| Ending stocks | 138 | 151 | 185 |
| Avg. farm price (US\$ / bushel) | 9.97 | 9.59 | 10.70-12.20 |

Source: World Agricultural Supply and Demand Estimates WASDE-488-12, November 9, 2010, USDA
 Note: Figures have been rounded.

Table 5.4 shows the Canadian soybean supply and use estimates for the 2008 to 2010 crop years as published by AAFC. The Canadian estimates for the 2010/11 crop year show increases in total supply and total use compared to 2009/10. Total supply is up because of a 15 percent increase in production. Total use is up due to a 21 percent increase in exports and a 16 percent increase in food and industrial use. The amount of soybeans required for food and industrial use is forecast to represent 32 percent of total supply. Feed for livestock will take about six percent of total supply while exports account for 53 percent. The AAFC forecast for the average farm price for Chatham, Ontario for 2010/11 ranges from \$9.53-\$10.61 per bushel as compared to \$9.77 in 2009/10.

Table 5.4: Canadian Soybeans Supply and Disposition, 2008/09 to 2010/11 (million bushels)

| Item | 2008/09 | 2009/10 Estimated | 2010/11 Projected |
|------------------------------------|---------|----------------------|----------------------|
| Area planted (million acres) | 2.97 | 3.45 | 3.61 |
| Area harvested (million acres) | 2.95 | 3.42 | 3.60 |
| Yield per harvested acre (bushels) | 41.5 | 37.7 | 41.2 |
| Beginning stocks | 4 | 8 | 11 |
| Production | 123 | 129 | 147 |
| Imports | 13 | 14 | 13 |
| Total supply | 140 | 151 | 172 |
| Exports | 69 | 76 | 92 |
| Food & industrial use | 47 | 48 | 55 |
| Feed, wastage & dockage | 10 | 11 | 10 |
| Total use | 62 | 64 | 71 |
| Ending stocks | 8 | 11 | 9 |
| Average price (C\$ / bushel) | 11.24 | 9.77 | 9.53-10.61 |

Source: Canada: Grains and Oilseeds Outlook: 2010-11, October 14, 2010, AAFC

Note: Figures have been rounded.

5.2.1 Prices

Soybean prices in Canada are determined similar to corn with a local basis amount added to a US price. Similar to corn, the local basis for Chatham, Ontario soybeans tends to be quite variable. The five year average (2005 to 2009 crop years) Chatham old crop basis is \$0.14 per bushel with a standard deviation of \$0.87. This means that approximately 67 percent of the time, the basis was in the -\$0.73 to \$1.01 per bushel range. The basis in the 2009 crop year (September 2009 to August 2010) averaged approximately \$0.02 per bushel over the Chicago nearby futures price.

5.2.2 Outlook for 2011

World soybean production for 2010/11 is forecast to be 257.36 million metric tonnes which is down two percent from last year but up 21 percent from 2008/09. Total world soybean use is estimated at 254.67 million metric tonnes. This is a seven percent increase from 2009/10. World soybean ending stocks will be up slightly. Higher soybean prices are forecast in 2010/11 compared to 2009/10. The USDA is forecasting a US average farm price of US\$10.70-\$12.20 per bushel. AAFC is estimating the Chatham Ontario soybean price to average from \$9.53-\$10.61 per bushel. University of Guelph, Ridgetown Campus projections using historical seasonality



patterns, estimate the Chatham Ontario soybean price to average in the \$10.00-\$11.30 per bushel range.

6.0 Horticulture

The horticulture sector in Canada includes field and greenhouse vegetables, tree and small fruits, ornamental products (floriculture, nursery, sod, and Christmas trees), and honey and maple products. In 2009, this sector represented \$5.87 billion in farm cash receipts. This was approximately 14 percent of total agricultural farm cash receipts (excluding program payments). Most of the production in the sector is concentrated in British Columbia, Ontario and Quebec with these three provinces representing 76 percent of total Canadian horticultural farm cash receipts. The focus of this section will be on potatoes, greenhouse vegetables (tomatoes, peppers and cucumbers), apples, blueberries, grapes and cranberries.

6.1 Potatoes

Potatoes are the most important vegetable crop grown in Canada and represented 37 percent of all vegetable farm cash receipts in 2009 (\$1.1 billion). The three largest provinces in terms of farm cash receipts from potatoes are Manitoba, Prince Edward Island and Alberta which accounted for 55 percent of Canada's total. Table 6.1 shows total Canadian production from 2007-2009 with seeded area also indicated for 2010. Seeded acreage in 2009 decreased from the levels seen in 2007 and 2008. 2010 seeded acreage is down three percent from 2009 levels. Average yields in 2009 were up from 2007 and 2008. Total production in 2009 was down two percent from 2008 and down eight percent from 2007.

Table 6.1: Canadian Potato Production, 2007-2010

| Item | 2007 | 2008 | 2009 | 2010 |
|------------------------------|---------|---------|---------|---------|
| Area seeded (acres) | 399,200 | 379,900 | 371,100 | 359,400 |
| Area harvested (acres) | 395,200 | 373,400 | 361,600 | n.a. |
| Average yield (cwt per acre) | 278.3 | 277.3 | 279.3 | n.a. |
| Production (million cwt) | 109.982 | 103.560 | 100.997 | n.a. |

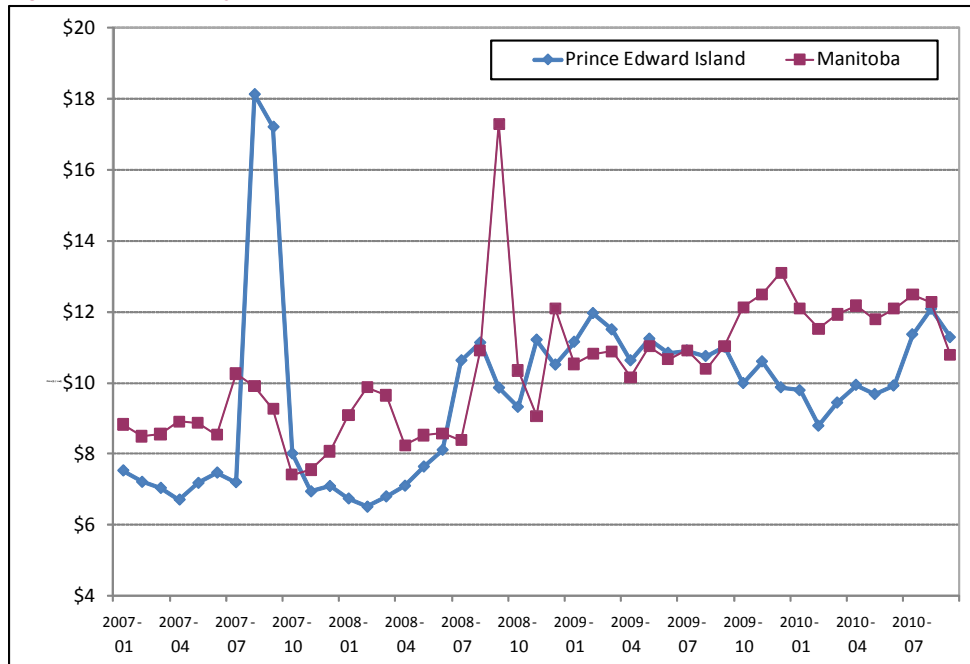
Source: Statistics Canada CANSIM table 10014

Note: cwt - hundredweight; n.a. - not available

Figures have been rounded.

Figure 6.1 shows monthly commercial prices received for potatoes from January 2006 to September 2010 in Prince Edward Island and Manitoba. PEI prices averaged \$9.69 per cwt over the period while Manitoba prices averaged \$10.40 per cwt. The prices in PEI showed more variability than those in Manitoba. PEI prices have averaged \$10.25 per cwt in 2010 which is down six percent from 2009 prices but up 17 percent from 2008. Manitoba prices for 2010 have averaged \$11.90 per cwt which is up six percent from 2009 prices and up 17 percent from 2008.

Figure 6.1: Monthly Canadian Commercial Prices, Potatoes, 2007-2010 (\$/cwt)



Source: Statistics Canada CANSIM table 20043
 Note: Figures have been rounded.

6.1.1 Outlook for 2011

The 2010 potato crop in the US is estimated to be down eight percent from 2009. 2010 production is estimated at 399 million cwt with 361 million cwt produced in the fall crop. Average yield per acre is pegged at 396 cwt, a decrease of four percent from 2009 yields. The world potato supply for 2010/11 is projected to be tight with production down in Canada, Europe and Russia, which experienced a 30 percent decrease from 2009 due to the severe summer drought.

US domestic per capita use in 2009 was 113.1 pounds, down four percent from 2008. Two-thirds of the 2009 US crop was used for processing, with half of these potatoes (138.4 million cwt) made into frozen french fries. Imports (Canada accounts for 87 percent of total import value) represent about 63 million cwt (farm weight) annually which is 14 percent of US utilization. The potato industry in Canada and the US has experienced lower potato prices in 2010 compared to 2009. Lower US and Canadian production and tight world supplies in 2010/11, should provide support for higher prices in 2011.

6.2 Greenhouse vegetables

Greenhouse vegetables represented 28 percent of all vegetable farm cash receipts in 2009 (\$870 million). The major crops produced are tomatoes, peppers, cucumbers and lettuce. The two largest provinces in terms of farm cash receipts are Ontario and British Columbia which combined accounted for 86 percent of Canada's total. Table 6.2 shows total Canadian greenhouse production of tomatoes, peppers and cucumbers from 2007-2009. Production has been increasing each year for each commodity. Total production of tomatoes in 2009 was up six percent from 2008 and up 13 percent from 2007. Both pepper and cucumber production increased in 2009 by eight percent and three percent respectively.

Table 6.2: Canadian Greenhouse Production of Tomatoes, Peppers and Cucumbers, 2007-2009

| Item | 2007 | 2008 | 2009 |
|------------------------|---------|---------|---------|
| Tomatoes | | | |
| Area harvested (acres) | 1,147 | 1,191 | 1,228 |
| Production (tonnes) | 204,286 | 216,553 | 230,199 |
| Peppers | | | |
| Area harvested (acres) | 755 | 834 | 856 |
| Production (tonnes) | 71,316 | 83,113 | 89,427 |
| Cucumbers | | | |
| Area harvested (acres) | 688 | 713 | 723 |
| Production (tonnes) | 159,063 | 177,068 | 182,697 |

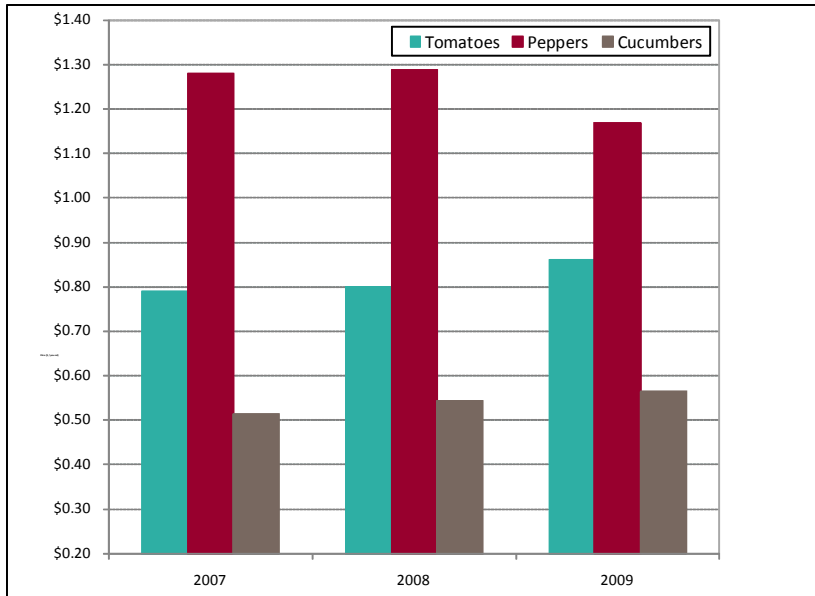
Source: Statistics Canada CANSIM table 10006

Note: n.a. - not available.

1 metric tonne = 170 dozen greenhouse cucumbers

Figure 6.2 shows annual Canadian prices received for greenhouse tomatoes, peppers and cucumbers from 2007 to 2009. Prices are in \$ per pound and are calculated as farm gate value divided by production. The trend in tomato prices has seen an increase during the 2007 to 2009 period from \$0.79 to \$0.86 per pound. Cucumber prices have also increased over the period from \$0.51 to \$0.56 per pound. Prices for peppers show a slight increase from \$1.28 per pound in 2007 to \$1.29 in 2008 followed by a drop to \$1.17 in 2009.

Figure 6.2: Annual Canadian Prices, Greenhouse Tomatoes, Peppers and Cucumbers, 2007-2009, (\$/pound)



Source: Statistics Canada CANSIM table 10006

Note: Calculated as farm gate value divided by production.

6.2.1 Outlook for 2011

Canada has significant vegetable trade with the US and therefore Canadian prices are largely determined by US market prices. Canada's market share of US import volumes of all fresh market tomatoes is approximately 11 percent while Mexico's market share is 88 percent. All US fresh market tomato imports are up 36 percent from January to August 2010 compared to one year ago while imports of greenhouse tomatoes are up 19 percent. US fresh tomato prices in 2010 have been mostly higher than 2009. Both fresh and processed tomato prices in the US in 2011 are expected to be below the previous three year average. US processing tomato production in 2010 is estimated to be down seven percent from 2009 but will be the second or third highest on record. Fresh market supplies this fall are expected to increase and drop grower prices below last year's prices.

US fresh market bell pepper prices in 2010 have mostly been higher than a year ago with prices in September 2010 that were 11 percent higher than in September 2009. Prices for 2011 are forecast to be lower than 2010 prices as per capita consumption is forecast to drop slightly along with an 11 percent increase in 2010 fall bell pepper harvested acreage. US imports of fresh market peppers from January to August 2010 are up 33 percent compared to the same period in 2009. Canadian imports of bell peppers from the Netherlands will now be subject to a duty for the next five years. In October, 2010, the Canadian International Trade Tribunal (CITT) announced its' final determination on injurious dumping by the Netherlands of bell peppers into the Canadian market.

US fresh market cucumber prices in 2010 have mostly been higher than a year ago with prices nine percent higher in September 2010 than in September 2009. Prices in 2011 are expected to be higher than 2010 prices. Prices are expected to be up 26 percent in the fourth quarter of 2010 compared to the same period in 2009 while 2011 first quarter prices are projected to be up 28 percent over those of the fourth quarter of 2010. US imports of fresh market cucumbers from January to August 2010 are up 11 percent compared to the same period in 2009.

6.3 Fruit

In 2009, farm cash receipts for tree and small fruits in Canada were \$687 million. The four largest fruits in Canada in terms of total cultivated area are blueberries, apples, grapes and cranberries. These four combined represent 88 percent of all cultivated fruit area in 2010 and 72 percent of farm cash receipts of all fruits produced in Canada in 2009. Apples are the most important in terms of 2009 farm cash receipts (\$175 million) with grapes next at \$115 million followed by blueberries at \$112 million and cranberries at \$94 million. Apples are also the largest in terms of production volume. The three largest provinces in terms of all fruits farm cash receipts are British Columbia, Ontario and Quebec which accounted for 91 percent of Canada's total.

Table 6.3 shows total Canadian marketed production and cultivated area of blueberries, apples, grapes and cranberries from 2007-2009. Figures for cultivated area for 2010 are also included. Total marketed production of blueberries in 2009 was up eight percent from 2008 with cultivated acres up two percent. 2010 cultivated acres are up one percent over 2009 implying that marketed production should be up as well in 2010. Total marketed production of apples in 2009 was down three percent from 2008 with cultivated acres down slightly. 2010 cultivated acres are down nine percent from 2009 implying that marketed production should be down as well in 2010. Total marketed production of grapes in 2009 was down 17 percent from 2008 while cultivated acres were up 17 percent. 2010 cultivated acres are down eight percent over 2009. Total marketed production of cranberries in 2009 was up 19 percent from 2008 while cultivated acres were up nine percent. 2010 cultivated acres are up six percent over 2009.

Table 6.3: Canadian Production of Blueberries, Apples, Grapes and Cranberries, 2007-2010

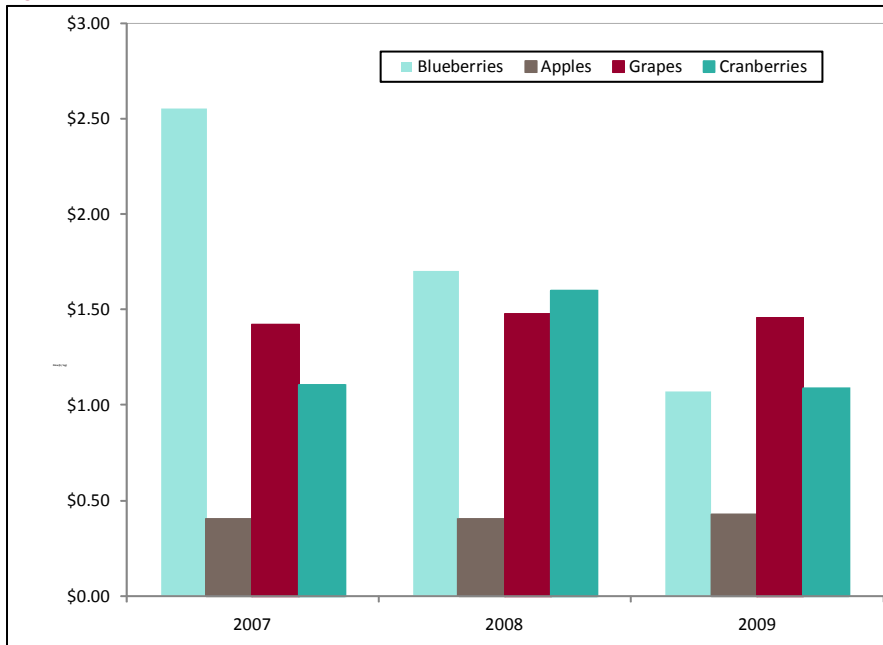
| Item | 2007 | 2008 | 2009 | 2010 |
|------------------------------|---------|---------|---------|---------|
| Blueberries | | | | |
| Area cultivated (acres) | 152,340 | 160,915 | 163,594 | 164,985 |
| Marketed production (tonnes) | 77,560 | 95,516 | 103,070 | n.a. |
| Apples | | | | |
| Area cultivated (acres) | 53,485 | 49,928 | 49,760 | 45,410 |
| Marketed production (tonnes) | 446,367 | 426,858 | 413,096 | n.a. |
| Grapes | | | | |
| Area cultivated (acres) | 28,130 | 26,115 | 30,670 | 28,250 |
| Marketed production (tonnes) | 75,723 | 80,962 | 67,508 | n.a. |
| Cranberries | | | | |
| Area cultivated (acres) | 11,300 | 12,420 | 13,494 | 14,264 |
| Marketed production (tonnes) | 70,690 | 72,688 | 86,776 | n.a. |

Source: Statistics Canada CANSIM table 10009

Note: n.a. - not available.

Figure 6.3 shows annual Canadian prices received for blueberries, apples, grapes and cranberries from 2007 to 2009. The prices are in \$ per kg and are calculated as farm gate value divided by marketed production. The trend in blueberry prices has seen a significant decrease from \$2.55 per kg in 2007 to \$1.07 in 2009. Apple prices have been flat over the three year period at \$0.40-\$0.43 per kg. Grape prices have also been relatively similar ranging from \$1.42 to \$1.48 per kg. Cranberry prices have shown some variability with a price increase from \$1.11 per kg in 2007 to \$1.60 in 2008 and a drop to \$1.08 in 2009.

Figure 6.3: Annual Canadian Prices, Blueberries, Apples, Grapes and Cranberries, 2007-2009 (\$/kg)



Source: Statistics Canada CANSIM table 10009

Note: Calculated as farm gate value divided by marketed production.

6.3.1 Outlook for 2011

Prices in the US fruit market have an impact on Canadian prices as Canada is the largest customer of US fresh fruit export volumes.

The 2010 apple crop in the US is estimated to be 9.5 billion pounds which is down four percent from last year. Poor weather conditions affected the crop in the eastern and central US. The 2010/11 marketing season (August to July) is expected to have higher prices than a year ago due to increased demand, decreased production and lower carry in stocks. Higher US apple prices should provide some support to Canadian apple prices.

The 2010 US grape crop is estimated at 14.2 billion pounds which is three percent smaller than last year. This is the second year in a row for lower production and lower supplies should provide support for higher grape prices going forward. California's grape crop is 12.7 billion pounds which is down three percent from last year with 55 percent of the crop going to wine grapes, 31 percent going to raisin grapes and 14 percent for table grapes. The volume of grapes crushed for wine is also expected to be down in 2010/11 due to the six percent smaller California wine grape crop. This will increase prices for producers selling grapes to wineries. The US has had two years of back-to-back record high producer prices for wine grapes.

The estimate for the 2010 US blueberry crop is 488 million pounds, up eight percent from the 2009 crop. US blueberry prices have seen lower prices since 2007 due to a buildup of supply. Total North American (US and Canadian) blueberry production has been increasing for several years. In 2009, Canada was the largest source for both wild and cultivated frozen US blueberry imports. US demand for Canadian imports should continue but US prices will experience downward pressure from increasing production and imports from other countries such as Argentina and Chile.



The USDA, as of September 30, 2010 was forecasting the 2010 US cranberry crop at 735 million pounds. This would have been up 6 percent from last year and the second largest crop on record behind the 2008 crop. However, since then Ocean Spray has revised their estimate of the US crop lower to 700 million pounds which would be a one percent increase from the 2009 crop. The estimate has been revised downward due to unfavourable summer weather conditions in Wisconsin and Massachusetts, the two largest producing states. The slightly larger crop combined with a large carryover of stocks from the previous year and potentially higher imports from Canada will pressure 2010/11 prices lower.

7.0 Summary

This document provides an overview of the major shocks that have impacted the commodities of beef, pork, major grains and oilseeds, and horticulture for the 2010 year. The manuscript also provides an outlook for 2011 and discusses in general terms the major issues likely to face each agricultural sector or commodity. From the review, it would appear the Canadian agricultural sector is performing as would be expected given that most commodities are traded globally and need to be cost competitive. While total farm cash receipts have continued to increase the last couple of years, net income has been prone to significant variability between years. Some sectors (e.g. pork and beef) are struggling for long run sustainability due to an extended period of poor profitability. Within Canada total food consumption has increased because of a growing population base but the commodities of fluid milk, beef, pork, poultry, eggs, and total fruits have all experienced a per capita decline.

When the issues facing each commodity are examined there are many common challenges facing each production type. These common issues can be listed as follows:

- Dependency on foreign markets which causes the potential for vulnerability to changes in government policy, exchange rates and trade protectionism.
- Rising farm input costs that drive up the cost of production making it difficult to remain cost competitive despite productivity increases due to improved technology.
- Increased competition from imported products from potentially lower cost countries due to less rigorous food safety, labour, and environmental regulations.
- Shifting consumer consumption patterns due to increased concern about buying local, healthier eating, and changing population demographics.
- Increased importance of domestic government programs despite shifting spending priorities.
- While interest rates are expected to remain low for the 2011 time period, low sector profit margins make the commodity groups vulnerable to possible rate increases caused by global inflation.

In conclusion, agriculture in Canada remains important with farm gate sales exceeding \$44 billion in 2009 but most commodities experience low profitability and export dependency. The majority of commodity prices are set by the United States which typically represents Canada's most significant agri-food trading partner.

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